

CITY OF NEWPORT
WASHINGTON COUNTY, MINNESOTA

Financial Statements and
Supplemental Information

Year Ended
December 31, 2015

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CITY OF NEWPORT
WASHINGTON COUNTY, MINNESOTA

Table of Contents

	Page
INTRODUCTORY SECTION	
CITY COUNCIL AND OTHER OFFICIALS	1
FINANCIAL SECTION	
INDEPENDENT AUDITOR’S REPORT	2–4
MANAGEMENT’S DISCUSSION AND ANALYSIS	5–15
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Position	16
Statement of Activities	17–18
Fund Financial Statements	
Governmental Funds	
Balance Sheet	19–20
Reconciliation of the Balance Sheet to the Statement of Net Position	21
Statement of Revenue, Expenditures, and Changes in Fund Balances	22–23
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities	24
Statement of Revenue, Expenditures, and Changes in Fund Balances – General Fund – Budget and Actual	25
Proprietary Funds	
Statement of Net Position	26
Statement of Revenue, Expenses, and Changes in Net Position	27
Statement of Cash Flows	28
Notes to Basic Financial Statements	29–56
REQUIRED SUPPLEMENTARY INFORMATION	
Public Employees General Employees Retirement Fund	
Schedule of City’s Proportionate Share of the Net Pension Liability	57
Schedule of Employer Contributions	57
Public Employees Police and Fire Fund	
Schedule of City’s Proportionate Share of the Net Pension Liability	58
Schedule of Employer Contributions	58
Schedule of Changes in the Newport Fire Department Relief Association’s Net Pension Liability and Related Ratios	59
Schedule of Employer Contributions – Newport Fire Department Relief Association	59
Other Post-Employment Benefits Plan	
Schedule of Funding Progress	60

CITY OF NEWPORT
WASHINGTON COUNTY, MINNESOTA

Table of Contents (continued)

	Page
SUPPLEMENTAL INFORMATION	
Combining and Individual Fund Statements and Schedules	
Nonmajor Governmental Funds	
Combining Balance Sheet	61
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	62
Nonmajor Special Revenue Funds	
Combining Balance Sheet	63
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	64
Nonmajor Debt Service Funds	
Combining Balance Sheet	65–66
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	67–68
Nonmajor Capital Project Funds	
Combining Balance Sheet	69–70
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	71–72
Schedule of Revenue, Expenditures, and Changes in Fund Balances – General Fund – Budget and Actual	73–80
Comparative Schedule of Revenue, Expenses, and Changes in Net Position	
Water Fund	81
Sewer Fund	82
Street Light Fund	83
Storm Sewer Fund	84
OTHER INFORMATION SECTION	
General Fund Revenue by Source	85
General Fund Expenditures by Function	86
Property Tax Levies and Receivables	87
Tax Capacities	88
OTHER REQUIRED REPORTS	
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	89–90
Independent Auditor’s Report on Minnesota Legal Compliance	91
Schedule of Findings and Responses	92–93

INTRODUCTORY SECTION

CITY OF NEWPORT
WASHINGTON COUNTY, MINNESOTA

City Council and Other Officials
As of December 31, 2015

CITY COUNCIL

Tim Geraghty
Thomas Ingemann
Daniel Lund
Tracy Rahm
William Sumner

Mayor
Councilmember
Councilmember
Councilmember
Councilmember

OTHER OFFICIALS

Debora Ann Hill

City Administrator

FINANCIAL SECTION

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PRINCIPALS

Thomas M. Montague, CPA
Thomas A. Karnowski, CPA
Paul A. Radosevich, CPA
William J. Lauer, CPA
James H. Eichten, CPA
Aaron J. Nielsen, CPA
Victoria L. Holinka, CPA

INDEPENDENT AUDITOR'S REPORT

To the City Council and Management
City of Newport, Minnesota

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newport, Minnesota (the City) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

(continued)

OPINIONS

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

EMPHASIS OF MATTER

As described in Note 1 of the notes to basic financial statements, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, during the year ended December 31, 2015. Our opinion is not modified with respect to this matter.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the required supplementary information (RSI), as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, supplemental information, and other information section, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

(continued)

The introductory and other information sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
June 1, 2016

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CITY OF NEWPORT

Management's Discussion and Analysis Year Ended December 31, 2015

As management of the City of Newport, Minnesota (the City), we have provided readers of the City's financial statements with this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2015.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the City's basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to basic financial statements. This report also contains other information in addition to the basic financial statements.

Government-Wide Financial Statements – The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to private sector businesses.

The Statement of Net Position presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (for example, delinquent taxes and special assessments).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by property taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, public works, parks and recreation, economic development, and interest and fiscal charges. The business-type activities of the City include enterprises for water, sewer, street light, and storm sewer utilities.

The government-wide financial statements include the City itself (known as the primary government) and any component units. The City does have a component unit, the Newport Economic Development Authority, that is required to be included in the City's financial statements. The activities of the component unit have been blended with the activities of the City.

Fund Financial Statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the City are divided into two categories—governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental funds Balance Sheet and the Statement of Revenue, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The fund financial statements present information for each major governmental fund in separate columns. Data from the nonmajor governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report. The City adopts an annual appropriated budget for the General Fund. Budget-to-actual comparisons are provided in this financial report for this fund.

Proprietary Funds – All of the City’s proprietary funds are enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City’s enterprise funds include the Water, Sewer, Street Light, and Storm Sewer Enterprise Funds.

The fund financial statements present information for each major enterprise fund in separate columns.

Notes to Basic Financial Statements – The notes to basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information – Combining statements for nonmajor funds and certain individual fund schedules are presented following the required supplementary information. The other information section contains other selected financial information of the City.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of the City's net position:

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Assets						
Current and other assets	\$ 5,830,935	\$ 5,399,486	\$ 1,350,220	\$ 1,436,883	\$ 7,181,155	\$ 6,836,369
Capital assets, net	11,994,692	12,825,531	3,776,292	3,613,240	15,770,984	16,438,771
Total assets	17,825,627	18,225,017	5,126,512	5,050,123	22,952,139	23,275,140
Deferred outflows of resources						
Pension plan deferments	254,811	–	24,169	–	278,980	–
Total assets and deferred outflows of resources	\$ 18,080,438	\$ 18,225,017	\$ 5,150,681	\$ 5,050,123	\$ 23,231,119	\$ 23,275,140
Liabilities						
Long-term liabilities outstanding	\$ 5,426,598	\$ 4,890,243	\$ 1,634,464	\$ 1,505,130	\$ 7,061,062	\$ 6,395,373
Other liabilities	327,680	243,748	80,684	79,575	408,364	323,323
Total liabilities	5,754,278	5,133,991	1,715,148	1,584,705	7,469,426	6,718,696
Deferred inflows of resources						
Pension plan deferments	173,732	–	22,520	–	196,252	–
Net position						
Net investment in capital assets	\$ 7,709,131	\$ 8,149,524	\$ 2,315,961	\$ 2,130,300	\$ 10,025,092	\$ 10,279,824
Restricted	1,607,682	1,844,089	–	–	1,607,682	1,844,089
Unrestricted	2,835,615	3,097,413	1,097,052	1,335,118	3,932,667	4,432,531
Total net position	12,152,428	13,091,026	3,413,013	3,465,418	15,565,441	16,556,444
Total liabilities, deferred inflows of resources, and net position	\$ 18,080,438	\$ 18,225,017	\$ 5,150,681	\$ 5,050,123	\$ 23,231,119	\$ 23,275,140

The decrease in total net position is mostly due to the change in accounting principle for Governmental Accounting Standards Board Statement No. 68, which reduced beginning net position in the governmental activities by \$927,818 and business-type activities by \$168,853.

The City's financial position is the product of many factors. For example, the determination of the City's net investment in capital assets involves many assumptions and estimates, such as current and accumulated depreciation amounts. A conservative versus liberal approach to depreciation estimates, as well as capitalization policies, will produce a significant difference in the calculated amounts.

Over the past several years, the City has taken a conservative financial approach, carefully analyzing revenues and expenditures/expenses to assure operation of a balanced budget. The ongoing management of revenue and expenses has allowed the City to maintain a stable net position balance.

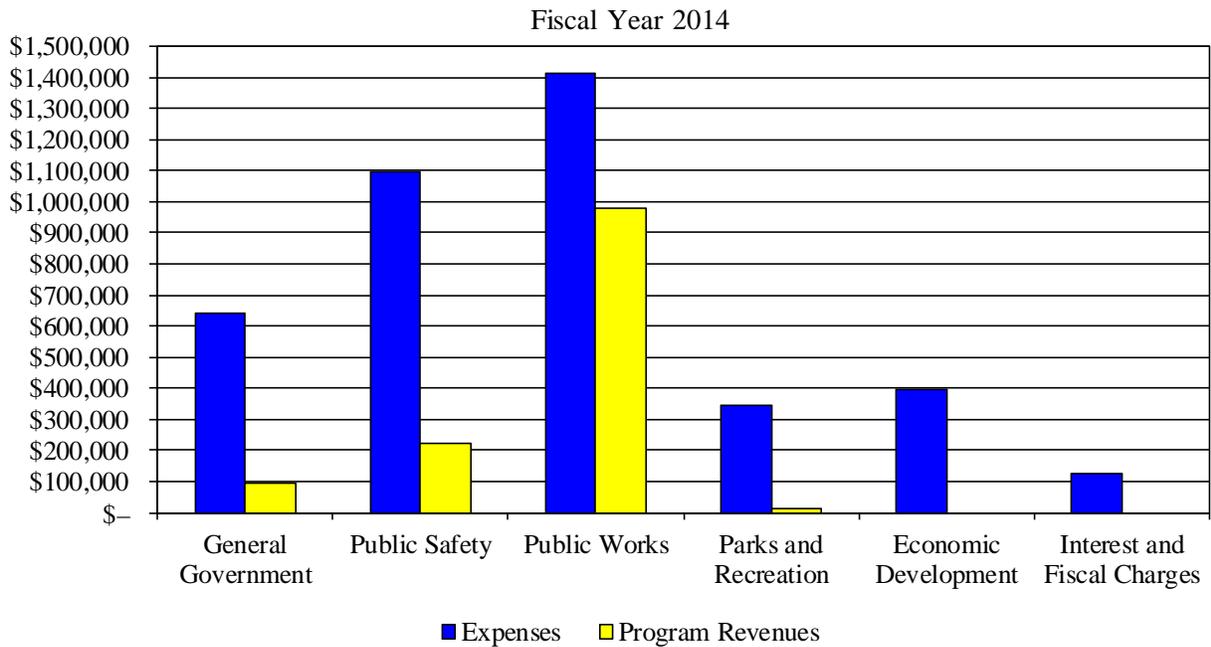
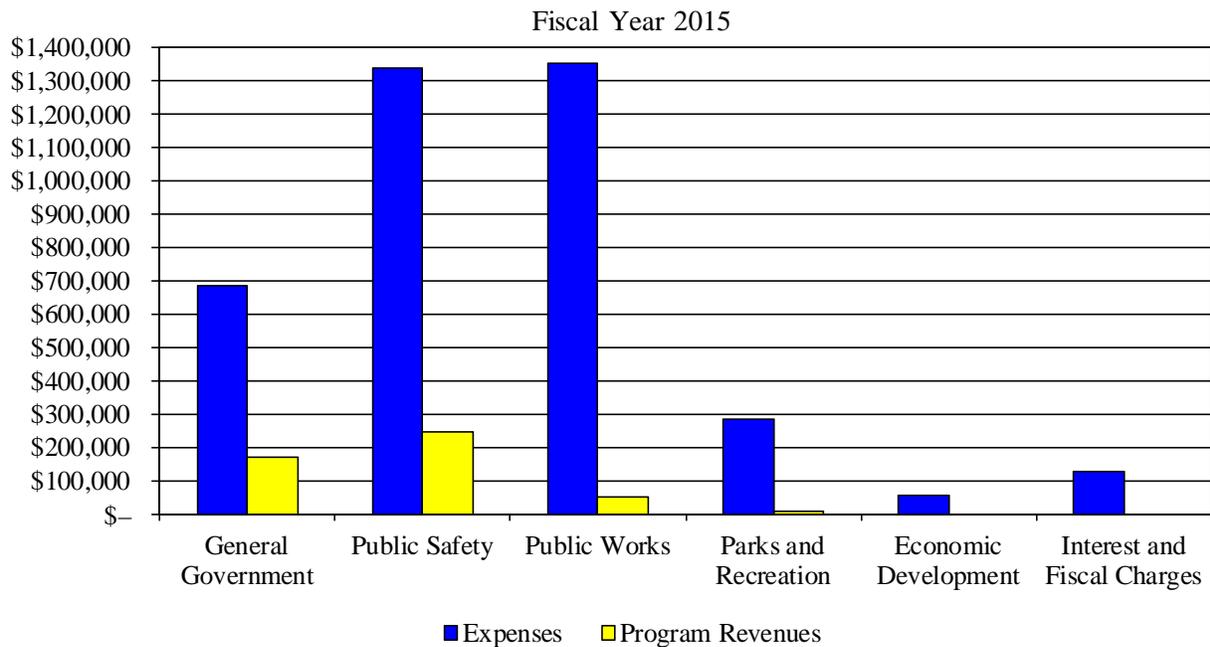
The following is a summary of the City's changes in net position:

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues						
Program revenues						
Charges for services	\$ 209,981	\$ 170,738	\$ 868,287	\$ 749,499	\$ 1,078,268	\$ 920,237
Operating grants and contributions	212,329	154,938	56,338	–	268,667	154,938
Capital grants and contributions	52,556	977,381	–	7,450	52,556	984,831
General revenues						
Property taxes	2,402,020	2,345,945	–	–	2,402,020	2,345,945
General grants and contributions	844,119	671,752	–	–	844,119	671,752
Other general revenues	128,636	129,785	3,524	–	132,160	129,785
Investment earnings	26,795	32,172	1,114	1,573	27,909	33,745
Transfers	(45,302)	22,382	45,302	(22,382)	–	–
Total revenues	<u>3,831,134</u>	<u>4,505,093</u>	<u>974,565</u>	<u>736,140</u>	<u>4,805,699</u>	<u>5,241,233</u>
Expenses						
General government	686,687	639,285	–	–	686,687	639,285
Public safety	1,336,014	1,097,034	–	–	1,336,014	1,097,034
Public works	1,351,673	1,411,514	–	–	1,351,673	1,411,514
Parks and recreation	282,666	345,542	–	–	282,666	345,542
Economic development	56,138	395,371	–	–	56,138	395,371
Water	–	–	325,377	338,499	325,377	338,499
Sewer	–	–	437,667	533,085	437,667	533,085
Other	–	–	95,073	92,933	95,073	92,933
Interest and fiscal charges	128,736	127,856	–	–	128,736	127,856
Total expenses	<u>3,841,914</u>	<u>4,016,602</u>	<u>858,117</u>	<u>964,517</u>	<u>4,700,031</u>	<u>4,981,119</u>
Changes in net position	(10,780)	488,491	116,448	(228,377)	105,668	260,114
Net position – beginning, as previously reported	13,091,026	12,602,535	3,465,418	3,693,795	16,556,444	16,296,330
Change in accounting principle	(927,818)	–	(168,853)	–	(1,096,671)	–
Net position – beginning, restated	<u>12,163,208</u>	<u>12,602,535</u>	<u>3,296,565</u>	<u>3,693,795</u>	<u>15,459,773</u>	<u>16,296,330</u>
Net position – ending	<u>\$ 12,152,428</u>	<u>\$ 13,091,026</u>	<u>\$ 3,413,013</u>	<u>\$ 3,465,418</u>	<u>\$ 15,565,441</u>	<u>\$ 16,556,444</u>

The table shows an increase in total net position of \$105,668. Governmental activities decreased its net position while business-type activities increased \$116,448 mainly due to increased revenue from charges for services and increased operating grants and contributions.

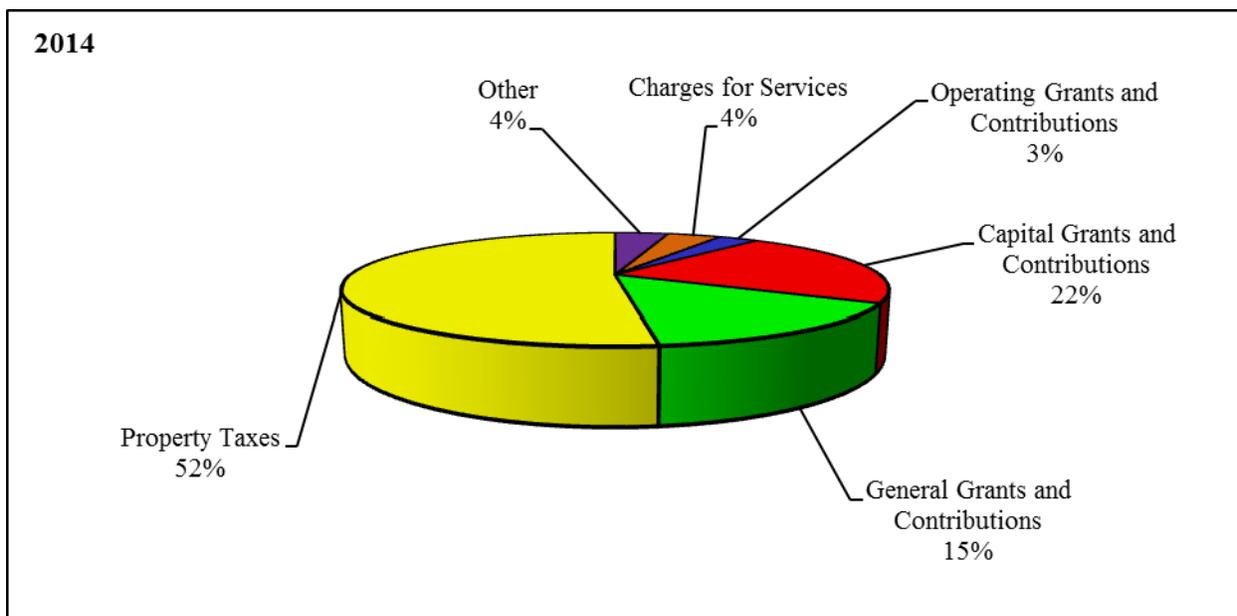
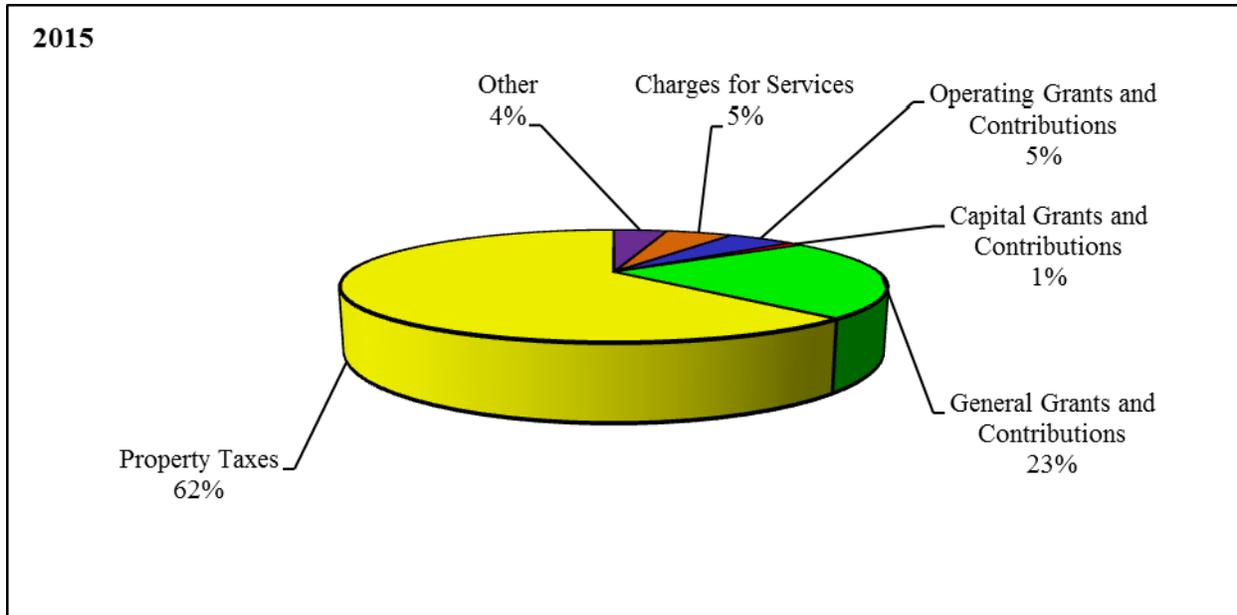
Governmental Activities – The following graphs illustrate the City’s governmental activities:

Expenses and Program Revenues – Governmental Activities for Fiscal Years 2015 and 2014



The governmental activities expenses and program revenues, shown in the above graph, clearly reflect the need for property taxes and general grants to supplement the activities of the City. The increase in public safety expenses reflects the payout of compensated absences balances for the police department which was closed and operations transferred to the county during the year. The decrease in public works revenues reflects the large amount of capital grants and contributions received in 2014.

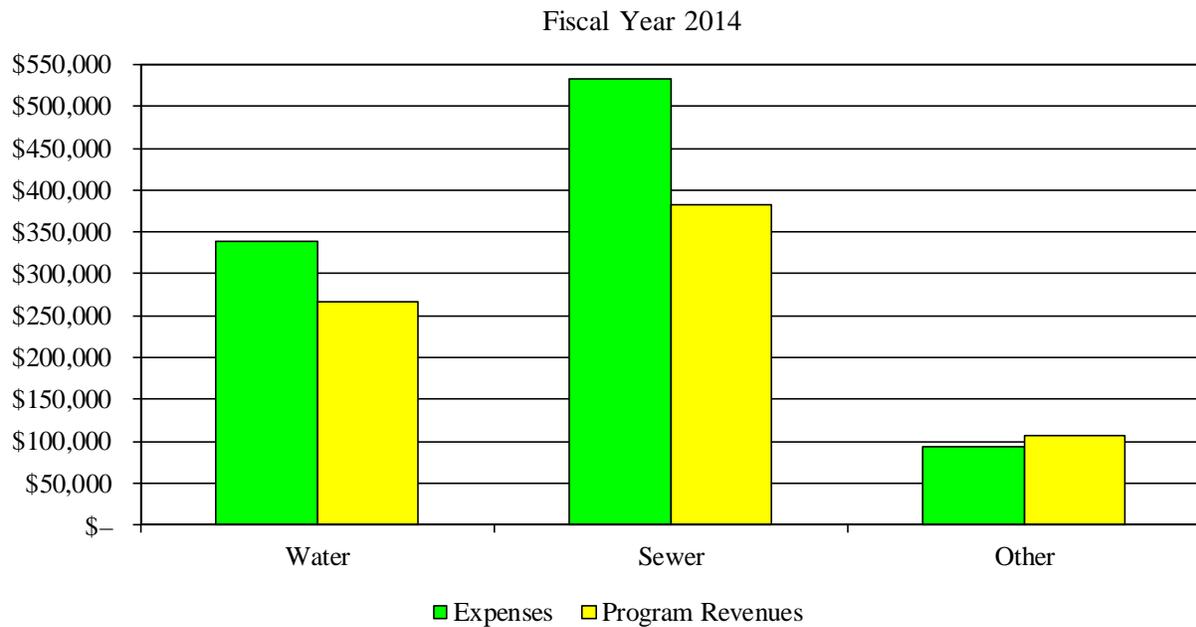
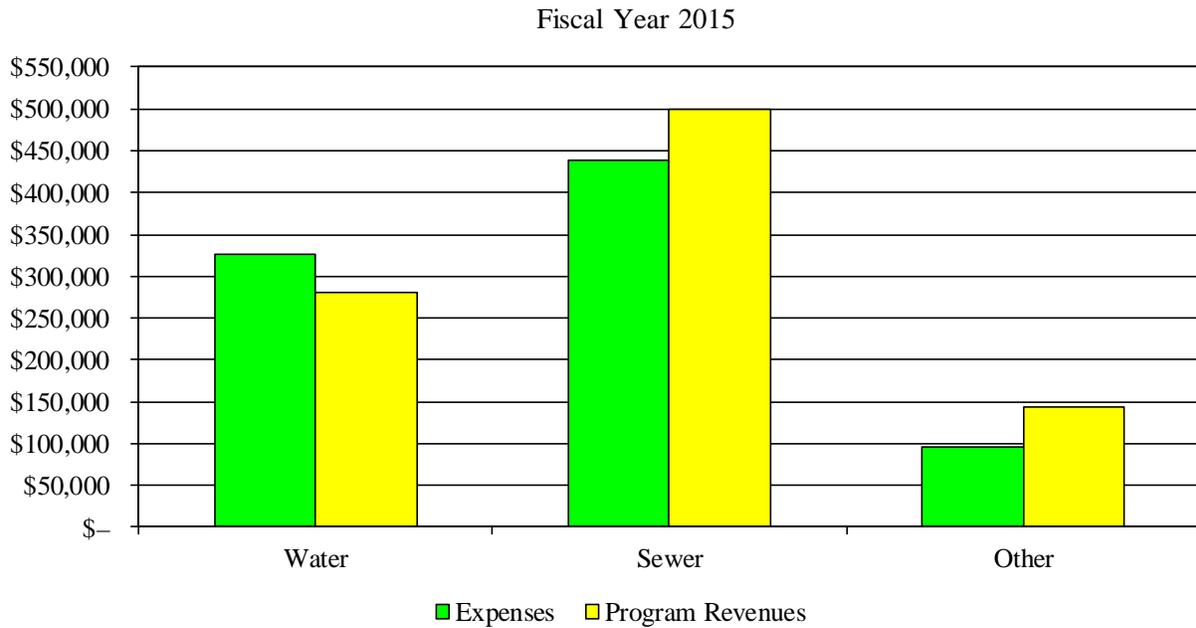
Revenue by Source – Governmental Activities for Fiscal Years 2015 and 2014



As is common with most cities, the governmental-type activities are primarily funded with taxes and general grants, including local government aid and tax credits, rather than with program revenues.

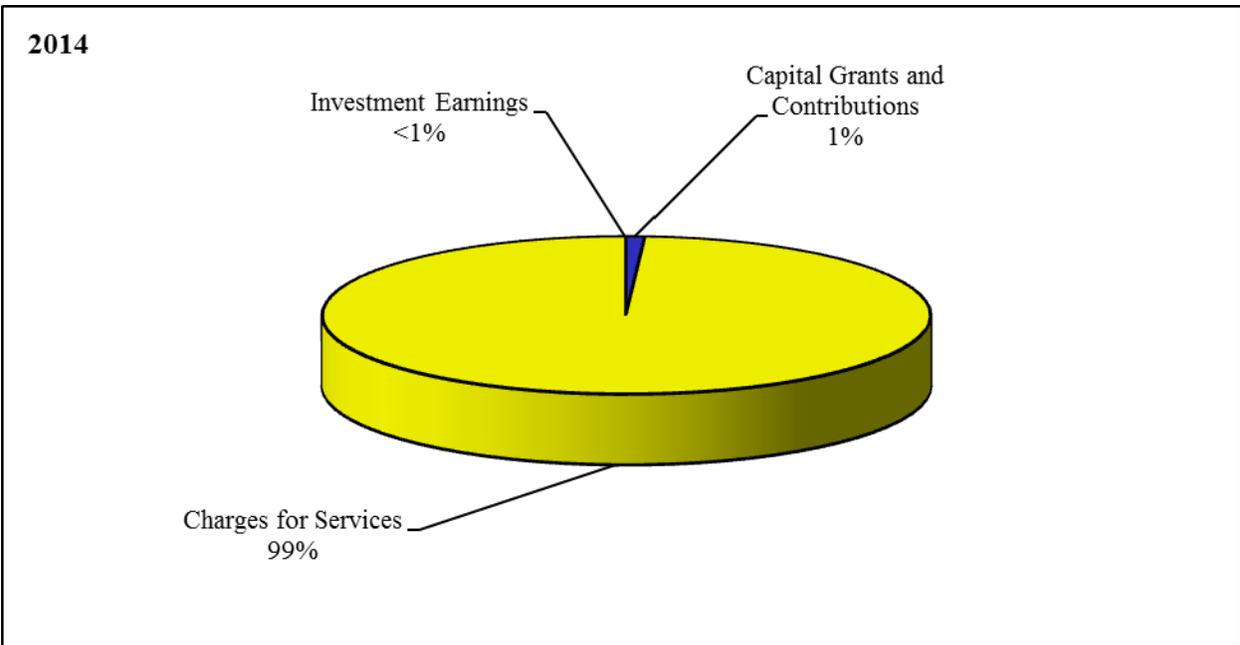
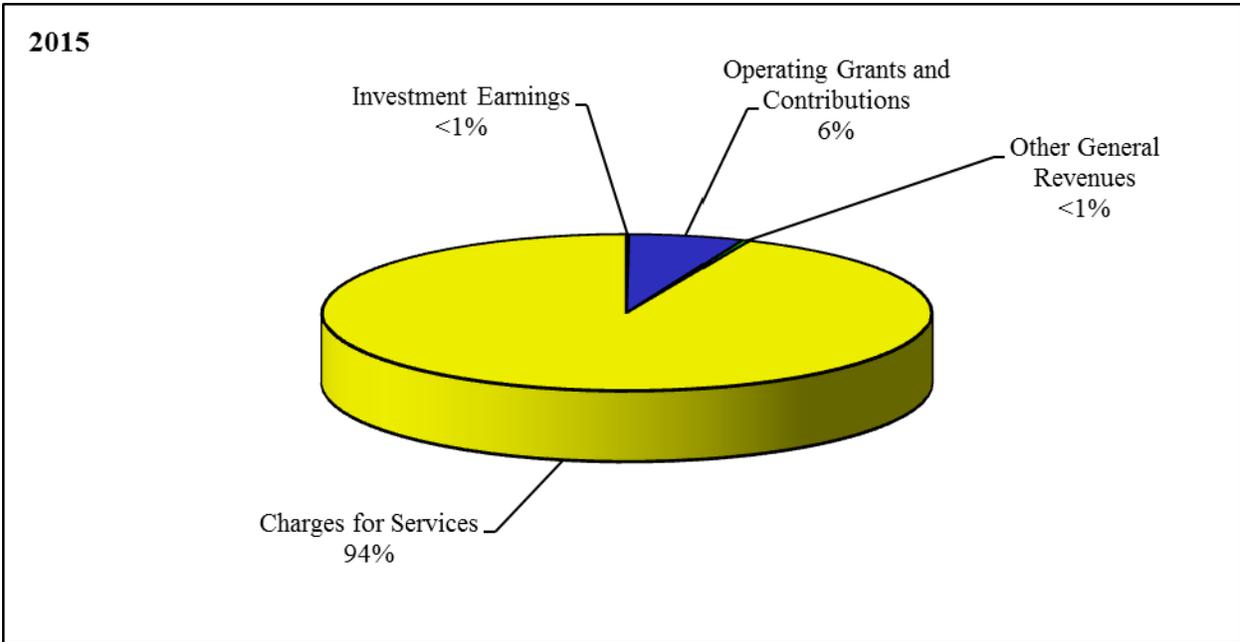
Business-Type Activities – The following graphs illustrate the City’s business-type activities:

Expenses and Program Revenues – Business-Type Activities for Fiscal Years 2015 and 2014



Unlike governmental activities, these activities are mostly funded through program revenues such as sales and user charges. The decrease in expenses in the Sewer Fund relate to decreases in Metropolitan Council Environmental Services (MCES) sewer charges in fiscal 2015.

Revenues by Source – Business-Type Activities for Fiscal Years 2015 and 2014



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds – At the end of the fiscal year, the City's governmental funds reported combined ending fund balances of \$4,590,597, an increase of \$481,580 in comparison with the prior year.

General Fund – The General Fund operating results can be summarized as follows:

	Original and Final Budget	Actual	Over (Under) Budget	Prior Year Actual
Revenue	\$ 3,078,671	\$ 3,204,096	\$ 125,425	\$ 3,169,034
Expenditures	<u>2,518,671</u>	<u>2,608,304</u>	<u>89,633</u>	<u>2,389,539</u>
Excess of revenue over expenditures	560,000	595,792	35,792	779,495
Other financing sources (uses)				
Transfers (out)	<u>(560,000)</u>	<u>(440,725)</u>	<u>119,275</u>	<u>(605,700)</u>
Net change in fund balances	<u>\$ –</u>	155,067	<u>\$ 155,067</u>	173,795
Fund balances				
Beginning of year		<u>2,092,886</u>		<u>1,919,091</u>
End of year		<u>\$ 2,247,953</u>		<u>\$ 2,092,886</u>

General Fund Budgetary Highlights – The majority of the City's revenue stream happens twice a year with the receipt of tax settlement dollars and it is the intent of the City Council to cover revenue downturns with General Fund savings or fund balance monies.

Actual financial results were better than projected due to higher than anticipated revenue, mainly in intergovernmental revenue (\$47,845), investment earnings (\$15,478), and miscellaneous revenue (\$38,021). Most of the other revenue sources were from donations and other reimbursements that were not anticipated in fiscal 2015. Expenditures were over budget by \$89,633, mainly in public safety (\$177,590) and partially offset by decreases in General Governmental (\$39,866) and public works (\$35,208).

Other Governmental Funds – The other major funds of the City include the Economic Development Authority Special Revenue Fund, the G.O. Improvement Bonds of 2014A Debt Service Fund, and the G.O. Improvement Bonds of 2013A Debt Service Fund. The G.O. Improvement Bonds of 2013A and 2014A fund balance increased due to special assessment revenue for the financing of the street projects.

Proprietary Funds – The City's proprietary funds had a combined net position of \$3,413,013 at December 31, 2015. The financial activities are the same as the business-type information summarized in previous charts within this MD&A. The proprietary funds consist of the Water, Sewer, Street Light, and Storm Sewer Enterprise Funds.

Capital Assets – The City’s investment in capital assets (net of accumulated depreciation) for its governmental and business-type activities as of December 31, 2015 are as follows:

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 3,225,160	\$ 3,225,160	\$ –	\$ –	\$ 3,225,160	\$ 3,225,160
Buildings and improvements	2,030,497	1,960,400	540,461	540,461	2,570,958	2,500,861
Machinery and equipment	404,818	394,553	1,570,677	350,607	1,975,495	745,160
Vehicles	1,512,123	1,554,328	–	–	1,512,123	1,554,328
Infrastructure	15,879,070	13,508,737	4,913,097	4,913,097	20,792,167	18,421,834
Construction in progress	–	2,372,594	–	940,000	–	3,312,594
Total capital assets	23,051,668	23,015,772	7,024,235	6,744,165	30,075,903	29,759,937
Accumulated depreciation	(11,056,976)	(10,190,141)	(3,247,943)	(3,130,925)	(14,304,919)	(13,321,066)
Total capital assets, net of depreciation	\$ 11,994,692	\$ 12,825,631	\$ 3,776,292	\$ 3,613,240	\$ 15,770,984	\$ 16,438,871
Depreciation expense	\$ 871,839	\$ 1,125,005	\$ 117,018	\$ 161,376	\$ 988,857	\$ 1,286,381

Additional details of capital asset activity for the year can be found in the notes to basic financial statements.

Long-Term Liabilities – The enterprise funds and governmental debt service funds account for the accumulation of resources to finance all of the City’s general obligation bonds. The revenue sources for these funds include annual tax levies, special assessments, and water, sewer, and storm water fund revenue. Compensated absences and net pension liabilities are paid for by the General Fund and respective enterprise funds. The following table summarizes the City’s long-term liabilities:

	2015	2014
Governmental activities		
General obligation bonds	\$ 4,135,000	\$ 4,518,000
Premiums on debt issued	150,561	158,007
Compensated absences	98,436	214,236
Net pension liability	1,042,601	–
Business-type activities		
General obligation bonds	1,425,000	1,445,000
Premiums on debt issued	35,331	37,940
Net pension liability	174,133	–
Total	\$ 7,061,062	\$ 6,373,183

The City has sufficient funds on hand to make all required bond payments, and anticipates an ongoing stream of revenue to make future bond payments.

Additional details of long-term debt activity for the year can be found in the notes to basic financial statements.

ECONOMIC FACTORS AND OTHER FINANCIAL ANALYSIS

Budget management has been and remains a high priority for the City Council. Efforts to maintain cost constraints include staggering the purchase of capital equipment, negotiating long-term union contracts, and forestalling the issuance of additional long-term general obligation debt. The City has struggled under the burden of a loss of taxable property, decreased building starts, and very low interest rates on investments.

The City will continue to utilize conservative financial budgeting.

REQUESTS FOR INFORMATION

Questions concerning any of the information provided in these financial statements or requests for additional information should be addressed by writing to the City of Newport, 596 – 7th Avenue, Newport, Minnesota 55055 or by calling (651) 459-5677.

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BASIC FINANCIAL STATEMENTS

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CITY OF NEWPORT

Statement of Net Position
as of December 31, 2015

	Governmental Activities	Business-Type Activities	Totals
Assets			
Cash and temporary investments	\$ 4,809,335	\$ 1,122,824	\$ 5,932,159
Receivables			
Accounts	–	208,193	208,193
Accrued interest	4,837	–	4,837
Current taxes	36,214	–	36,214
Delinquent taxes	52,631	–	52,631
Current special assessments	3,885	–	3,885
Delinquent special assessments	5,501	–	5,501
Deferred special assessments	861,803	–	861,803
Due from other governmental units	2,542	–	2,542
Net pension asset	32,397	–	32,397
Net OPEB asset	9,690	–	9,690
Prepaid items	12,100	19,203	31,303
Capital assets			
Not being depreciated	3,225,160	–	3,225,160
Depreciated, net of accumulated depreciation	8,769,532	3,776,292	12,545,824
Total assets	17,825,627	5,126,512	22,952,139
Deferred outflows of resources			
Pension plan deferments	254,811	24,169	278,980
Total assets and deferred outflows of resources	\$ 18,080,438	\$ 5,150,681	\$ 23,231,119
Liabilities			
Accounts and contracts payable	\$ 61,790	\$ 27,142	\$ 88,932
Salaries payable	30,067	34,392	64,459
Accrued interest payable	49,364	19,150	68,514
Due to other governmental units	186,459	–	186,459
Long-term liabilities			
Due within one year	428,436	80,000	508,436
Due in more than one year	4,998,162	1,554,464	6,552,626
Total liabilities	5,754,278	1,715,148	7,469,426
Deferred inflows of resources			
Pension plan deferments	173,732	22,520	196,252
Net position			
Net investment in capital assets	7,709,131	2,315,961	10,025,092
Restricted for			
Debt service	1,578,675	–	1,578,675
Other purposes	29,007	–	29,007
Unrestricted	2,835,615	1,097,052	3,932,667
Total net position	12,152,428	3,413,013	15,565,441
Total liabilities, deferred inflows of resources, and net position	\$ 18,080,438	\$ 5,150,681	\$ 23,231,119

See notes to basic financial statements

CITY OF NEWPORT

Statement of Activities
Year Ended December 31, 2015

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities				
General government	\$ 686,687	\$ 131,415	\$ 38,416	\$ -
Public safety	1,336,014	78,416	165,446	-
Public works	1,351,673	-	-	52,556
Parks and recreation	282,666	150	8,467	-
Economic development	56,138	-	-	-
Interest and fiscal charges	128,736	-	-	-
Total governmental activities	<u>3,841,914</u>	<u>209,981</u>	<u>212,329</u>	<u>52,556</u>
Business-type activities				
Water	325,377	274,565	6,474	-
Sewer	437,667	449,825	49,864	-
Other	95,073	143,897	-	-
Total business-type activities	<u>858,117</u>	<u>868,287</u>	<u>56,338</u>	<u>-</u>
Total governmental and business-type activities	<u>\$ 4,700,031</u>	<u>\$ 1,078,268</u>	<u>\$ 268,667</u>	<u>\$ 52,556</u>

General revenues

Property taxes

General grants and contributions

Other general revenues

Investment earnings

Transfers

Total general revenues and transfers

Change in net position

Net position – beginning, as previously reported

Change in accounting principle

Net position – beginning, restated

Net position – ending

See notes to basic financial statements

Net (Expenses)
Revenue and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (516,856)	\$ —	\$ (516,856)
(1,092,152)	—	(1,092,152)
(1,299,117)	—	(1,299,117)
(274,049)	—	(274,049)
(56,138)	—	(56,138)
(128,736)	—	(128,736)
<u>(3,367,048)</u>	<u>—</u>	<u>(3,367,048)</u>
—	(44,338)	(44,338)
—	62,022	62,022
—	48,824	48,824
<u>—</u>	<u>66,508</u>	<u>66,508</u>
(3,367,048)	66,508	(3,300,540)
2,402,020	—	2,402,020
844,119	—	844,119
128,636	3,524	132,160
26,795	1,114	27,909
(45,302)	45,302	—
<u>3,356,268</u>	<u>49,940</u>	<u>3,406,208</u>
(10,780)	116,448	105,668
13,091,026	3,465,418	16,556,444
(927,818)	(168,853)	(1,096,671)
<u>12,163,208</u>	<u>3,296,565</u>	<u>15,459,773</u>
<u>\$ 12,152,428</u>	<u>\$ 3,413,013</u>	<u>\$ 15,565,441</u>

CITY OF NEWPORT

Balance Sheet
 Governmental Funds
 as of December 31, 2015

	<u>General Fund</u>	<u>Special Revenue Economic Development Authority</u>	<u>Debt Service G.O. Improvement Bonds of 2013A</u>
Assets			
Cash and temporary investments	\$ 2,388,444	\$ 791,104	\$ 107,485
Receivables			
Accrued interest	4,837	-	-
Current taxes	31,568	-	1,016
Delinquent taxes	52,631	-	-
Current special assessments	-	-	-
Delinquent special assessments	-	-	16
Deferred special assessments	-	-	219,551
Due from other funds	85,265	-	-
Due from other governmental units	2,542	-	-
Prepaid items	12,100	-	-
	<u>\$ 2,577,387</u>	<u>\$ 791,104</u>	<u>\$ 328,068</u>
Liabilities			
Accounts and contracts payable	\$ 60,277	\$ 1,403	\$ -
Salaries payable	30,067	-	-
Due to other funds	-	-	-
Due to other governmental units	186,459	-	-
Total liabilities	<u>276,803</u>	<u>1,403</u>	<u>-</u>
Deferred inflows of resources			
Unavailable revenue – taxes	52,631	-	-
Unavailable revenue – special assessments	-	-	219,567
Total deferred inflows of resources	<u>52,631</u>	<u>-</u>	<u>219,567</u>
Fund balances (deficit)			
Nonspendable	12,100	-	-
Restricted	-	-	108,501
Assigned	-	789,701	-
Unassigned	2,235,853	-	-
Total fund balances	<u>2,247,953</u>	<u>789,701</u>	<u>108,501</u>
	<u>\$ 2,577,387</u>	<u>\$ 791,104</u>	<u>\$ 328,068</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,577,387</u>	<u>\$ 791,104</u>	<u>\$ 328,068</u>

See notes to basic financial statements

<u>Debt Service</u>		
<u>G.O. Improvement Bonds of 2014A</u>	<u>Nonmajor Funds</u>	<u>Totals</u>
\$ 457,763	\$ 1,064,539	\$ 4,809,335
-	-	4,837
490	3,140	36,214
-	-	52,631
-	3,885	3,885
3,663	1,822	5,501
616,836	25,416	861,803
-	-	85,265
-	-	2,542
-	-	12,100
<u>\$ 1,078,752</u>	<u>\$ 1,098,802</u>	<u>\$ 5,874,113</u>
\$ -	\$ 110	\$ 61,790
-	-	30,067
-	85,265	85,265
-	-	186,459
-	85,375	363,581
-	-	52,631
620,499	27,238	867,304
620,499	27,238	919,935
-	-	12,100
458,253	239,404	806,158
-	832,050	1,621,751
-	(85,265)	2,150,588
<u>458,253</u>	<u>986,189</u>	<u>4,590,597</u>
<u>\$ 1,078,752</u>	<u>\$ 1,098,802</u>	<u>\$ 5,874,113</u>

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CITY OF NEWPORT

Reconciliation of the Balance Sheet
to the Statement of Net Position
Governmental Funds
as of December 31, 2015

Total fund balances – governmental funds	\$ 4,590,597
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets are included in net position, but are excluded from fund balances because they do not represent financial resources.	
Cost of capital assets	23,051,668
Less accumulated depreciation	(11,056,976)
Long-term liabilities and net OPEB are included in net position, but are excluded from fund balances until due and payable. Debt issuance premiums and discounts are excluded from net position until amortized, but are included in fund balances upon issuance as other financing sources and uses.	
General obligation bonds payable	(4,135,000)
Premiums on debt issued	(150,561)
Compensated absences payable	(98,436)
Net pension liability	(1,042,601)
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.	
Delinquent property taxes	52,631
Special assessments	867,304
Net pension asset	32,397
Net OPEB asset	9,690
Deferred outflows	254,811
Deferred inflows	(173,732)
Accrued interest payable is included in net position, but is excluded from fund balances until due and payable.	(49,364)
Total net position – governmental activities	<u>\$ 12,152,428</u>

See notes to basic financial statements

CITY OF NEWPORT

Statement of Revenue, Expenditures, and Changes in Fund Balances
 Governmental Funds
 Year Ended December 31, 2015

	<u>General Fund</u>	<u>Special Revenue Economic Development Authority</u>	<u>Debt Service G.O. Improvement Bonds of 2013A</u>
Revenue			
Property taxes	\$ 2,118,808	\$ 817	\$ 69,128
Licenses and permits	75,363	-	-
Special assessments	-	-	39,835
Intergovernmental	770,619	153,084	-
Charges for services	93,957	-	-
Fines and forfeits	61,850	-	-
Investment earnings	23,478	711	142
Miscellaneous	60,021	54,745	-
Total revenue	<u>3,204,096</u>	<u>209,357</u>	<u>109,105</u>
Expenditures			
Current			
General government	668,594	-	171
Public safety	1,204,911	-	-
Public works	358,887	-	-
Parks and recreation	351,058	-	-
Economic development	-	56,138	-
Capital outlay	24,854	-	-
Debt service			
Principal retirement	-	-	75,000
Interest and fiscal charges	-	-	34,064
Total expenditures	<u>2,608,304</u>	<u>56,138</u>	<u>109,235</u>
Excess (deficiency) of revenue over expenditures	595,792	153,219	(130)
Other financing sources (uses)			
Transfers in	-	180,500	68,707
Transfers (out)	(440,725)	-	-
Total other financing sources (uses)	<u>(440,725)</u>	<u>180,500</u>	<u>68,707</u>
Net change in fund balances	155,067	333,719	68,577
Fund balances			
Beginning of year	<u>2,092,886</u>	<u>455,982</u>	<u>39,924</u>
End of year	<u>\$ 2,247,953</u>	<u>\$ 789,701</u>	<u>\$ 108,501</u>

See notes to basic financial statements

<u>Debt Service</u>		
<u>G.O. Improvement Bonds of 2014A</u>	<u>Nonmajor Funds</u>	<u>Totals</u>
\$ 33,816	\$ 212,095	\$ 2,434,664
-	-	75,363
110,028	34,131	183,994
-	36,181	959,884
-	-	93,957
-	-	61,850
377	2,087	26,795
-	6,933	121,699
<u>144,221</u>	<u>291,427</u>	<u>3,958,206</u>
441	10,340	679,546
-	-	1,204,911
-	-	358,887
-	13,689	364,747
-	-	56,138
-	228,946	253,800
-	308,000	383,000
73,444	22,787	130,295
<u>73,885</u>	<u>583,762</u>	<u>3,431,324</u>
70,336	(292,335)	526,882
-	191,518	440,725
-	(45,302)	(486,027)
-	146,216	(45,302)
70,336	(146,119)	481,580
<u>387,917</u>	<u>1,132,308</u>	<u>4,109,017</u>
<u>\$ 458,253</u>	<u>\$ 986,189</u>	<u>\$ 4,590,597</u>

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CITY OF NEWPORT

Reconciliation of the Statement of
Revenue, Expenditures, and Changes in Fund Balances
to the Statement of Activities
Governmental Funds
Year Ended December 31, 2015

Total net change in fund balances – governmental funds \$ 481,580

Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays are recorded in net position and the cost is allocated over their estimated useful lives as depreciation expense. However, fund balances are reduced for the full cost of capital outlays at the time of purchase.

Capital outlays	83,761
Depreciation expense	(871,839)
Disposal of assets	(42,761)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities. The amounts below are the effects of these differences in the treatment of long-term debt and related items.

Principal payments	383,000
Amortization of bond premium	7,446

Interest on long-term debt is included in the change in net position as it accrues, regardless of when payment is due. However, it is included in the change in fund balances when due. (5,887)

Certain expenses are included in the change in net position, but do not require the use of current financial resources and are not reported as expenditures in governmental funds until actually due.

Compensated absences	115,800
Net OPEB obligations payable	3,509
Net pension liability	(5,146)

The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.

Delinquent property taxes	(33,266)
Special assessments	(130,816)
Net pension asset	(19,462)
Deferred outflows	197,033
Deferred inflows	(173,732)

Change in net position – governmental activities \$ (10,780)

See notes to basic financial statements

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CITY OF NEWPORT

Statement of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual
 General Fund
 Year Ended December 31, 2015

	Original and Final Budget	Actual	Over (Under) Final Budget
Revenue			
Property taxes	\$ 2,114,297	\$ 2,118,808	\$ 4,511
Licenses and permits	75,250	75,363	113
Intergovernmental	722,774	770,619	47,845
Charges for services	84,350	93,957	9,607
Fines and forfeits	52,000	61,850	9,850
Investment earnings	8,000	23,478	15,478
Miscellaneous	22,000	60,021	38,021
Total revenue	<u>3,078,671</u>	<u>3,204,096</u>	<u>125,425</u>
Expenditures			
Current			
General government	708,460	668,594	(39,866)
Public safety	1,027,136	1,204,911	177,775
Public works	394,095	358,887	(35,208)
Parks and recreation	341,780	351,058	9,278
Capital outlay	47,200	24,854	(22,346)
Total expenditures	<u>2,518,671</u>	<u>2,608,304</u>	<u>89,633</u>
Excess of revenue over expenditures	560,000	595,792	35,792
Other financing (uses)			
Transfers (out)	<u>(560,000)</u>	<u>(440,725)</u>	<u>119,275</u>
Net change in fund balances	<u>\$ -</u>	<u>155,067</u>	<u>\$ 155,067</u>
Fund balances			
Beginning of year		<u>2,092,886</u>	
End of year		<u>\$ 2,247,953</u>	

See notes to basic financial statements

CITY OF NEWPORT

Statement of Net Position
 Proprietary Funds
 as of December 31, 2015

	Business-Type Activities – Enterprise Funds				Total
	Water	Sewer	Street Light	Storm Sewer	
Assets					
Current assets					
Cash and temporary investments	\$ 402,964	\$ 637,894	\$ 48,146	\$ 33,820	\$ 1,122,824
Receivables					
Accounts	69,535	104,277	16,432	17,949	208,193
Prepaid items	818	18,138	87	160	19,203
Total current assets	473,317	760,309	64,665	51,929	1,350,220
Capital assets					
Buildings and improvements	123,291	417,170	–	–	540,461
Machinery and equipment	608,916	770,270	–	191,491	1,570,677
Infrastructure	2,962,267	1,950,830	–	–	4,913,097
	3,694,474	3,138,270	–	191,491	7,024,235
Less accumulated depreciation	1,934,795	1,311,552	–	1,596	3,247,943
Net capital assets	1,759,679	1,826,718	–	189,895	3,776,292
Total assets	2,232,996	2,587,027	64,665	241,824	5,126,512
Deferred outflows of resources					
Pension plan deferments	10,876	10,876	–	2,417	24,169
Total assets and deferred outflows of resources	\$ 2,243,872	\$ 2,597,903	\$ 64,665	\$ 244,241	\$ 5,150,681
Liabilities					
Current liabilities					
Accounts payable	\$ 11,745	\$ 11,697	\$ 3,480	\$ 220	\$ 27,142
Salaries payable	16,847	16,847	282	416	34,392
Accrued interest payable	6,611	10,150	–	2,389	19,150
Long-term liabilities – current	25,720	42,280	–	12,000	80,000
Total current liabilities	60,923	80,974	3,762	15,025	160,684
Long-term liabilities					
Net pension liability	78,360	78,360	–	17,413	174,133
Other long-term liabilities	477,478	719,786	–	183,067	1,380,331
Total long-term liabilities	555,838	798,146	–	200,480	1,554,464
Total liabilities	616,761	879,120	3,762	215,505	1,715,148
Deferred inflows of resources					
Pension plan deferments	10,134	10,134	–	2,252	22,520
Net position					
Net investment in capital assets	1,256,481	1,064,652	–	(5,172)	2,315,961
Unrestricted	360,496	643,997	60,903	31,656	1,097,052
Total net position	1,616,977	1,708,649	60,903	26,484	3,413,013
Total liabilities, deferred inflows of resources, and net position	\$ 2,243,872	\$ 2,597,903	\$ 64,665	\$ 244,241	\$ 5,150,681

See notes to basic financial statements

CITY OF NEWPORT

Statement of Revenue, Expenses, and Changes in Net Position
 Proprietary Funds
 Year Ended December 31, 2015

	Business-Type Activities – Enterprise Funds				Total
	Water	Sewer	Street Light	Storm Sewer	
Operating revenue					
Water sales	\$ 274,161	\$ –	\$ –	\$ –	\$ 274,161
Sewer charges	–	449,316	–	–	449,316
Street light charges	–	–	72,924	–	72,924
Storm sewer charges	–	–	–	70,973	70,973
Permits and licenses	404	509	–	–	913
Total operating revenue	<u>274,565</u>	<u>449,825</u>	<u>72,924</u>	<u>70,973</u>	<u>868,287</u>
Operating expenses					
Salaries	84,648	88,679	6,964	10,473	190,764
Employee benefits	17,598	17,509	1,044	1,931	38,082
MCES sewer charges	–	192,011	–	–	192,011
Insurance	13,118	17,330	1,157	2,047	33,652
Supplies	19,685	15,110	–	–	34,795
Utilities	29,966	8,579	42,122	–	80,667
Depreciation	70,308	45,114	–	1,596	117,018
Other	71,416	26,025	22	20,630	118,093
Total operating expenses	<u>306,739</u>	<u>410,357</u>	<u>51,309</u>	<u>36,677</u>	<u>805,082</u>
Operating income (loss)	(32,174)	39,468	21,615	34,296	63,205
Nonoperating revenue (expense)					
State grant and aids	6,474	49,864	–	–	56,338
Investment earnings	409	639	37	29	1,114
Miscellaneous revenues	1,762	1,762	–	–	3,524
Interest and fiscal charges	(18,638)	(27,310)	–	(7,087)	(53,035)
Total nonoperating revenue (expense)	<u>(9,993)</u>	<u>24,955</u>	<u>37</u>	<u>(7,058)</u>	<u>7,941</u>
Income (loss) before transfers	(42,167)	64,423	21,652	27,238	71,146
Transfers in	–	121,206	–	1,539	122,745
Transfers (out)	(77,443)	–	–	–	(77,443)
Change in net position	(119,610)	185,629	21,652	28,777	116,448
Net position					
Beginning, as previously reported	1,812,571	1,599,004	39,251	14,592	3,465,418
Change in accounting principle	(75,984)	(75,984)	–	(16,885)	(168,853)
Beginning, as restated	<u>1,736,587</u>	<u>1,523,020</u>	<u>39,251</u>	<u>(2,293)</u>	<u>3,296,565</u>
End of year	<u>\$ 1,616,977</u>	<u>\$ 1,708,649</u>	<u>\$ 60,903</u>	<u>\$ 26,484</u>	<u>\$ 3,413,013</u>

See notes to basic financial statements

CITY OF NEWPORT

Statement of Cash Flows
 Proprietary Funds
 Year Ended December 31, 2015

	Business-Type Activities – Enterprise Funds				Total
	Water	Sewer	Street Light	Storm Sewer	
Cash flows from operating activities					
Cash received from customers	\$ 294,086	\$ 438,504	\$ 72,072	\$ 61,737	\$ 866,399
Cash paid to suppliers	(136,385)	(303,815)	(43,800)	(22,474)	(506,474)
Cash paid to employees	(97,566)	(102,147)	(7,726)	(12,147)	(219,586)
Net cash provided by operating activities	60,135	32,542	20,546	27,116	140,339
Cash flows from noncapital financing activities					
Cash received from other funds	–	121,206	–	1,539	122,745
Cash paid to other funds	(77,443)	–	–	–	(77,443)
Net cash provided by noncapital financing activities	(77,443)	121,206	–	1,539	45,302
Cash flows from capital and related financing activities					
State aid and grants	6,474	49,864	–	–	56,338
Miscellaneous revenues	1,762	1,762	–	–	3,524
Capital asset purchases	(32,652)	(243,927)	–	(3,491)	(280,070)
Principal paid on debt	(10,000)	(10,000)	–	–	(20,000)
Interest paid on debt	(19,186)	(26,932)	–	(6,415)	(52,533)
Net cash provided by capital financing activities	(53,602)	(229,233)	–	(9,906)	(292,741)
Cash flows from investing activities					
Interest received	409	639	37	29	1,114
Net change in cash and cash equivalents	(70,501)	(74,846)	20,583	18,778	(105,986)
Cash and cash equivalents					
Beginning of year	473,465	712,740	27,563	15,042	1,228,810
End of year	\$ 402,964	\$ 637,894	\$ 48,146	\$ 33,820	\$ 1,122,824
Reconciliation of operating income (loss) to net cash provided by operating activities					
Operating income (loss)	\$ (32,174)	\$ 39,468	\$ 21,615	\$ 34,296	\$ 63,205
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities					
Depreciation	70,308	45,114	–	1,596	117,018
Change in assets and deferred outflows of resources					
Accounts receivable	19,521	(11,321)	(852)	(9,236)	(1,888)
Prepaid items	(44)	(17,364)	(10)	(17)	(17,435)
Deferred outflows of resources	(10,876)	(10,876)	–	(2,417)	(24,169)
Change in liabilities and deferred inflows of resources					
Accounts payable	(1,854)	(27,396)	(489)	220	(29,519)
Salaries and compensated absences payable	3,046	2,407	282	(106)	5,629
Due to other governmental units	(302)	–	–	–	(302)
Net pension liability	2,376	2,376	–	528	5,280
Deferred inflows of resources	10,134	10,134	–	2,252	22,520
Net cash provided by operating activities	\$ 60,135	\$ 32,542	\$ 20,546	\$ 27,116	\$ 140,339

See notes to basic financial statements

CITY OF NEWPORT

Notes to Basic Financial Statements
December 31, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The City of Newport, Minnesota (the City) operates under the “Optional Plan A” form of government as defined in Minnesota Statutes, Chapter 412. Under this plan, the government of the City is run by a council composed of an elected mayor and four councilmembers. The City Council exercises legislative authority and determines all matters of policy.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governmental units.

B. Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements include the City (the primary government) and its component units. Component units are legally separate entities for which the primary government is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit’s board, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit.

The Newport Economic Development Authority (EDA) is fiscally dependent upon the City and its governing body consists of City Council members. The City Council directs the activities of the EDA’s management. Therefore, the EDA is included as a component unit of the City. The EDA’s financial data has been blended with that of the City (reported as though its funds were funds of the City).

C. Government-Wide Financial Statements

The government-wide financial statements (Statement of Net Position and Statement of Activities) display information about the reporting government as a whole. These statements include all of the financial activities of the City. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other internally-directed revenues are reported as general revenues.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the fiscal year for which they are levied while special assessments are recognized when certified. Grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. However, charges between the City's enterprise funds and other functions are not eliminated, as that would distort the direct costs and program revenues reported in those functions. The City applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available. Depreciation expense is included in the direct expenses of each function. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

D. Fund Financial Statement Presentation

Separate fund financial statements are provided for governmental and proprietary funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements. Aggregated information for the remaining nonmajor governmental and proprietary funds is reported in a single column in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if collected within 60 days after year-end.

Major revenue that is susceptible to accrual includes property taxes, intergovernmental revenue, charges for services, and interest earned on investments. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Revenue that is not susceptible to accrual includes licenses and permits, fees, and miscellaneous revenue. Such revenue is recorded only when received because it is not measurable until collected. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt, compensated absences, other post-employment benefit (OPEB) obligations, and net pension liabilities, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as capital outlay expenditures in the governmental funds.

Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. The operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Description of Funds

The City reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Economic Development Authority Special Revenue Fund – This fund is used to account for the financial resources of the EDA.

G.O. Improvement Bonds of 2013A and 2014A Debt Service Fund – These funds are used to account for the financial resources for the 2013 and 2014 general obligation improvement bonds.

The City reports the following major proprietary funds:

Water Enterprise Fund – The Water Enterprise Fund is used to account for the operation, maintenance, and improvement of the City’s water utility system.

Sewer Enterprise Fund – The Sewer Enterprise Fund is used to account for the operation, maintenance, and improvement of the City’s sewer utility system.

Street Light Enterprise Fund – The Street Light Enterprise Fund is used to account for the operation, maintenance, and improvement of the City’s street light utility system.

Storm Sewer Enterprise Fund – The Storm Sewer Enterprise Fund is used to account for the operation, maintenance, and improvement of the City’s storm sewer utility system.

E. Cash and Investments

Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

Investments are generally stated at fair value, except for investments in 2a-7 like external investment pools, which are stated at amortized cost. Short-term, highly liquid debt instruments (including commercial paper, bankers’ acceptance, and U.S. treasury and agency obligations) purchased with a remaining maturity of one year or less are also reported at amortized cost. Investment income is accrued at the Balance Sheet date.

F. Receivables

Utility and miscellaneous accounts receivable are reported at gross. Since the City is generally able to certify delinquent amounts to the county for collection as special assessments, no allowance for uncollectible accounts has been provided on current receivables. All receivables are expected to be collected within one year with the exception of deferred special assessments.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Property Taxes

Property tax levies are set by the City Council by December of each year, and are certified to Washington County for collection in the following year. In Minnesota, counties act as collection agents for all property taxes.

The county spreads all levies over taxable property. Such taxes become a lien on January 1 and are recorded as receivables by the City on that date. Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Personal property taxes are due in full on May 15. The county provides tax settlements to cities and other taxing districts several times a year. Taxes which remain unpaid at December 31 are classified as delinquent taxes receivable.

H. Special Assessments

Special assessments represent the financing for public improvements paid for by benefiting property owners. These assessments are recorded as delinquent (levied, but unremitted) or deferred (certified, but not yet levied) special assessments receivable.

I. Prepaid Items

The inventories of the City's proprietary funds are recorded in prepaid items at the lower of cost or market on the first-in, first-out basis. Prepaid items in all funds are reported using the consumption method and recorded as an expense or expenditure at the time of consumption.

J. Capital Assets

Capital assets, which include property, buildings, equipment, and improvements (infrastructure assets such as roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are capitalized at historical cost or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The City defines capital assets as those with an initial, individual cost of \$5,000 or more with an estimated useful life in excess of one year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the government-wide and proprietary fund financial statements, but are not reported in the governmental fund financial statements. Interest incurred during the construction phase of capital assets for business-type activities is included as part of the capitalized value of the assets constructed. Capital assets are depreciated using the straight-line method over their estimated useful lives. Land and construction in progress are not depreciated. Useful lives vary from 10 to 50 years for buildings and improvements; 4 to 20 years for machinery, equipment, and vehicles; and 10 to 65 years for infrastructure.

The City has chosen to report infrastructure beginning with capital assets acquired after 1980. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Compensated Absences Payable

All employees of the City are eligible for certain severance benefits. The severance calculation is dependent upon employee type, as well as years of service. Non-union employees receive severance pay for unused vacation days and one-half of their unused sick leave benefits to a maximum of 60 days of additional severance pay. Severance pay for all full-time employees of the police department who are members of Minnesota Teamsters, Local 320, Public and Law Enforcement Employees Union are paid in accordance with the terms of their contract. All full-time employees who are members of International Union of Operating Engineers, Local 49, AFL-CIO are also paid in accordance with the terms of their contract. These compensated absences are paid to an employee leaving in good standing, at their current rate of pay, by the governmental or proprietary fund that paid the largest portion of the employee's salary. The amount of severance that is based on convertible sick leave is recorded as a liability in the government-wide financial statements and proprietary funds as it is earned and it becomes probable that it will vest at some point in the future. Severance pay is accrued in the governmental fund financial statements only when it becomes due and payable.

L. Other Post-Employment Benefits

Under Minnesota Statute § 471.61, Subd. 2b, public employers must allow retirees and their dependants to continue coverage indefinitely in an employer-sponsored healthcare plan, under the following conditions: 1) retirees must be receiving (or be eligible to receive) an annuity from a Minnesota public pension plan; 2) coverage must continue in a group plan until age 65, and retirees must pay no more than the group premium; and 3) retirees may obtain dependant coverage immediately before retirement. All premiums are funded on a pay-as-you-go basis. The liability was actuarially determined, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 45, at January 1, 2015.

M. Long-Term Liabilities

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. If they are material, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

In the governmental fund financial statements, long-term debt and other long-term obligations are not reported as liabilities. The face amount of debt issued is reported as other financing sources. Premiums or discounts on debt issuances are reported as other financing sources or uses, respectively.

N. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City only has one item that qualifies for reporting in this category. It is the deferred outflows of resources related to pensions reported in the government-wide and enterprise funds Statement of Net Position. This deferred outflow results from differences between expected and actual experience, changes of assumptions, difference between projected and actual earnings on pension plan investments, and from contributions to the plan subsequent to the measurement date and before the end of the reporting period. These amounts are deferred and amortized as required under pension standards.

In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has two types of items which qualify for reporting in this category.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The first item, *unavailable revenue*, arises only under a modified accrual basis of accounting and, therefore, is only reported in the governmental funds balance sheet. The governmental funds report unavailable revenue from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

The second item, *deferred inflows of resources* related to pensions, is reported in the government-wide and enterprise funds Statement of Net Position. This deferred inflow results from differences between expected and actual experience, changes of assumptions, and differences between projected and actual earnings on pension plan investments. These amounts are deferred and amortized as required under pension standards.

O. State-Wide and Fire Relief Pension Plans

For purposes of measuring the net pension liability or asset, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and the Newport Fire Department Relief Association (the Association), and additions to/deductions from the PERA's and the Association's fiduciary net position have been determined on the same basis as they are reported by the PERA and the Association, except that the PERA's fiscal year-end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

P. Net Position

In the government-wide and proprietary fund financial statements, net position represents the differences between assets, deferred outflows of resources, liabilities, and deferred inflow of resources. Net position is displayed in three components:

- **Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation, reduced by any outstanding debt attributable to acquire capital assets.
- **Restricted Net Position** – Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.
- **Unrestricted Net Position** – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Q. Fund Balance Classifications

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

- **Nonspendable** – Consists of amounts that are not in spendable form, such as prepaid items, inventory, and other long-term assets.
- **Restricted** – Consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.
- **Committed** – Consists of internally imposed constraints that are established by resolution of the City Council. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- **Assigned** – Consists of internally imposed constraints. These constraints consist of amounts intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority.
- **Unassigned** – The residual classification for the General Fund, which also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, it is the City's policy to first use restricted resources, then use unrestricted resources as they are needed.

When committed, assigned, or unassigned resources are available for use, it is the City's policy to use resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

R. Budgets and Budgetary Accounting

Budget amounts are presented on the modified accrual basis of accounting. Each fall the City Council adopts a General Fund budget for the following fiscal year beginning January 1. The City has established budgetary control at the fund level. Budget appropriations lapse at year-end. Expenditures exceeded budgeted amounts in the General Fund by \$89,633 during the year ended December 31, 2015.

S. Statement of Cash Flows

For purposes of the Statement of Cash Flows, the City considers all highly liquid debt instruments with an original maturity from the time of purchase by the City of three months or less to be cash equivalent. The proprietary funds' portion in the government-wide cash and investment management pool is considered to be cash equivalent.

T. Risk Management

The City is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The City participates in the League of Minnesota Cities Insurance Trust (LMCIT), a public entity risk pool for its general property and casualty, workers' compensation, and other miscellaneous insurance coverage. LMCIT operates as a common risk management and insurance program for a large number of cities in Minnesota. The City pays an annual premium to LMCIT for insurance coverage. The LMCIT agreement provides that the trust will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of certain limits. The City also carries commercial insurance for certain other risks of loss. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage in 2015.

U. Use of Estimates

The preparation of financial statements, in accordance with accounting principles generally accepted in the United States of America, requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such estimates.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

V. Change in Accounting Principle

During the year ended December 31, 2015, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements included major changes in how employers account for pension benefit expenses and liabilities. In financial statements prepared using the economic resources measurement focus and accrual basis of accounting (government-wide and proprietary funds), an employer is required to recognize a liability for its share of the net pension liability provided through the pension plan. An employer is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources for its share related to pensions. This standard required retroactive implementation, which resulted in the restatement of net position as of December 31, 2014. The details of the restatement are as follows:

	Government-Wide		Proprietary Funds			
	Governmental Activities	Business-Type Activities	Water	Sewer	Street Light	Storm Sewer
Net position – December 31, 2014 (as reported)	\$ 13,091,026	\$ 3,465,418	\$ 1,812,571	\$ 1,599,004	\$ 39,251	\$ 14,592
Net pension asset	51,859	–	–	–	–	–
Deferred outflows/inflows related to pensions	57,778	7,303	3,286	3,286	–	731
Net pension liability	(1,037,455)	(176,156)	(79,270)	(79,270)	–	(17,616)
Net position – December 31, 2014 (as restated)	<u>\$ 12,163,208</u>	<u>\$ 3,296,565</u>	<u>\$ 1,736,587</u>	<u>\$ 1,523,020</u>	<u>\$ 39,251</u>	<u>\$ (2,293)</u>

NOTE 2 – CASH AND INVESTMENTS

A. Components of Cash and Investments

Cash and investments at year-end consist of the following:

Deposits	\$	4,721,118
Investments		1,210,966
Cash on hand		<u>75</u>
Total	\$	<u><u>5,932,159</u></u>

B. Deposits

In accordance with applicable Minnesota Statutes, the City maintains deposits at depository banks authorized by the City Council, including checking accounts and certificates of deposit.

The following is considered the most significant risk associated with deposits:

Custodial Credit Risk – In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may be lost.

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated “A” or better; revenue obligations rated “AA” or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The City’s investment policy addresses this risk. It states that the City will minimize deposit custodial risk by obtaining collateral or bond for all uninsured amounts on deposit, and by obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law.

At year-end, the carrying amount of the City’s deposits was \$4,721,118 while the balance on the bank records was \$4,752,219. At December 31, 2015, all deposits were fully covered by federal depository insurance, surety bonds, or by collateral held by the City’s agent in the City’s name.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

C. Investments

The City has the following investments at year-end:

Investment Type	Credit Risk		Concentration Risk	Interest Risk – Maturity Duration in Years			Total
	Rating	Agency	Over 5% of Portfolio	Less Than 1	1 to 5	5 to 10	
Negotiable certificates of deposit							
Amex Centurion – Salt Lake City, UT	N/R	N/A	20.2%	\$ 120,208	\$ 124,050	\$ –	\$ 244,258
Oriental Bank & Trust – Hato Rey, PR	N/R	N/A	7.8%	\$ 94,861	\$ –	\$ –	94,861
Goldman Sachs – New York, NY	N/R	N/A	14.8%	\$ –	\$ 179,592	\$ –	179,592
BMW Bank – Salt Lake City, UT	N/R	N/A	10.3%	\$ –	\$ 125,081	\$ –	125,081
Capital One – Glen Allen, VA	N/R	N/A	7.8%	\$ –	\$ 94,588	\$ –	94,588
Sallie Mae – Salt Lake City, UT	N/R	N/A	10.6%	\$ –	\$ 128,368	\$ –	128,368
Barclays – Wilmington, DE	N/R	N/A	10.3%	\$ –	\$ 124,670	\$ –	124,670
State Bank of India – Chicago, IL	N/R	N/A	8.2%	\$ –	\$ 99,259	\$ –	99,259
Wells Fargo – Sioux Falls, SD	N/R	N/A	10.0%	\$ –	\$ –	\$ 120,289	120,289
Total investments							<u>\$ 1,210,966</u>

N/R – Not Rated

N/A – Not Applicable

Investments are subject to various risks, the following of which are considered the most significant:

Custodial Credit Risk – For investments, this is the risk that in the event of a failure of the counterparty to an investment transaction (typically a broker-dealer), the City would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City’s investment policy addresses credit risk. It states the City will minimize deposit custodial risk by obtaining collateral or bond for all uninsured amounts on deposit, and by obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Credit Risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit the City’s investments to direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated “A” or better; revenue obligations rated “AA” or better; general obligations of the Minnesota Housing Finance Agency rated “A” or better; bankers’ acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000; that are a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; or certain Minnesota securities broker-dealers. The City’s investment policy addresses this risk. It states that designated depositories shall have insurance through the Federal Deposit Insurance Corporation or the Securities Investor Protection Corporation. To ensure safety, it is the policy of the City that when considering an investment, all depositories under consideration be cross-checked against existing investments to make certain that funds in excess of insurance limits are not made in the same institution unless collateralized as outlined below. Furthermore, the City Council will approve all financial institutions, brokers, and advisors with which the City will do business.

Concentration Risk – This is the risk associated with investing a significant portion of the City’s investments (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The City’s investment policy addresses concentration risk. It states the City’s investments shall be diversified as to specific maturity, issuer, and institution in order to minimize risk to the portfolio. Investments should be purchased to match expected cash flow needs, minimizing the market risk associated with the early sale of investments. Investments beyond two years should be related to debt payments, or other known expenditures. Up to 20 percent of the portfolio may be invested beyond five years, but no more than 10 years in maturity. Securities with a maturity of more than five years shall be fixed term securities and not securities whose term can be extended by changes in market conditions. No more than 50 percent of the portfolio should be invested in any one security issuer, with the exception of U.S. treasury obligations, which could represent 100 percent of the portfolio. Commercial paper is limited to 20 percent of the portfolio and no more than 2.5 percent of the portfolio should be invested in any one commercial paper issuer. No more than 50 percent of the portfolio shall be purchased from any one investment institution.

Interest Rate Risk – This is the risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk). The City’s investment policy addresses interest rate risk. It states that the City will minimize interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market to maturity.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2015 was as follows:

A. Changes in Capital Assets Used in Governmental Activities

	Balance – Beginning of Year	Additions	Deletions	Balance – End of Year
Capital assets, not depreciated				
Land	\$ 3,225,160	\$ –	\$ –	\$ 3,225,160
Construction in progress	2,372,594	85,265	(2,457,859)	–
Total capital assets, not depreciated	5,597,754	85,265	(2,457,859)	3,225,160
Capital assets, depreciated				
Buildings and improvements	1,960,400	70,097	–	2,030,497
Machinery and equipment	394,453	15,925	(5,560)	404,818
Vehicles	1,554,328	–	(42,205)	1,512,123
Infrastructure	13,508,737	2,370,333	–	15,879,070
Total capital assets, depreciated	17,417,918	2,456,355	(47,765)	19,826,508
Less accumulated depreciation for				
Buildings and improvements	(741,685)	(40,211)	–	(781,896)
Machinery and equipment	(217,406)	(26,699)	5,004	(239,101)
Vehicles	(755,755)	(98,159)	–	(853,914)
Infrastructure	(8,475,295)	(706,770)	–	(9,182,065)
Total accumulated depreciation	(10,190,141)	(871,839)	5,004	(11,056,976)
Net capital assets, depreciated	7,227,777	1,584,516	(42,761)	8,769,532
Net capital assets	\$ 12,825,531	\$ 1,669,781	\$ (2,500,620)	\$ 11,994,692

NOTE 3 – CAPITAL ASSETS (CONTINUED)

B. Changes in Capital Assets Used in Business-Type Activities

	Balance – Beginning of Year	Additions	Deletions	Balance – End of Year
Capital assets, not depreciated				
Construction in progress	\$ 940,000	\$ 137,323	\$ (1,077,323)	\$ –
Capital assets, depreciated				
Buildings and improvements	540,461	–	–	540,461
Machinery and equipment	350,607	1,220,070	–	1,570,677
Infrastructure	4,913,097	–	–	4,913,097
Total capital assets, depreciated	<u>5,804,165</u>	<u>1,220,070</u>	<u>–</u>	<u>7,024,235</u>
Less accumulated depreciation for				
Buildings and improvements	(394,670)	(6,390)	–	(401,060)
Machinery and equipment	(232,221)	(35,042)	–	(267,263)
Infrastructure	(2,504,034)	(75,586)	–	(2,579,620)
Total accumulated depreciation	<u>(3,130,925)</u>	<u>(117,018)</u>	<u>–</u>	<u>(3,247,943)</u>
Net capital assets, depreciated	<u>2,673,240</u>	<u>1,103,052</u>	<u>–</u>	<u>3,776,292</u>
Net capital assets	<u>\$ 3,613,240</u>	<u>\$ 1,240,375</u>	<u>\$ (1,077,323)</u>	<u>\$ 3,776,292</u>

C. Depreciation Expense by Function

Governmental activities	
General government	\$ 2,163
Public safety	69,989
Public works	790,772
Parks and recreation	<u>8,915</u>
Total depreciation expense – governmental activities	<u>\$ 871,839</u>
Business-type activities	
Water	\$ 70,308
Sewer	45,114
Storm sewer	<u>1,596</u>
Total depreciation expense – business-type activities	<u>\$ 117,018</u>

NOTE 4 – LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities

	December 31, 2014	Change in Accounting Principle (1)	Additions	Retirements	December 31, 2015	Due Within One Year
Governmental activities						
General obligation bonds payable	\$ 4,518,000	\$ –	\$ –	\$ 383,000	\$ 4,135,000	\$ 330,000
Premiums on debt issued	158,007	–	–	7,446	150,561	–
Compensated absences payable	214,236	–	28,364	144,164	98,436	98,436
Net pension liability	–	1,037,455	9,687	4,541	1,042,601	–
	<u>4,890,243</u>	<u>1,037,455</u>	<u>38,051</u>	<u>539,151</u>	<u>5,426,598</u>	<u>428,436</u>
Business-type activities						
General obligation revenue bonds payable	1,445,000	–	–	20,000	1,425,000	80,000
Premiums on debt issued	37,940	–	–	2,609	35,331	–
Net pension liability	–	176,156	–	2,023	174,133	–
	<u>1,482,940</u>	<u>176,156</u>	<u>–</u>	<u>24,632</u>	<u>1,634,464</u>	<u>80,000</u>
Total long-term liabilities	<u>\$ 6,373,183</u>	<u>\$ 1,213,611</u>	<u>\$ 38,051</u>	<u>\$ 563,783</u>	<u>\$ 7,061,062</u>	<u>\$ 508,436</u>

(1) Adjustment for change in accounting principle to implement GASB Statement No. 68 described earlier in these notes.

B. Details on Bonds Payable

	Original Issue	Interest Rate	Issue Date	Final Maturity Date	Balance – End of Year
Governmental activities					
G.O. Capital Improvement Plan Refunding Bonds of 2010A	\$ 685,000	0.85–2.35%	07/06/2010	10/01/2016	\$ 120,000
G.O. Improvement Bonds of 2011A	\$ 645,000	3.00%	11/01/2011	02/01/2021	445,000
G.O. Improvement Bonds of 2013A	\$ 1,350,000	0.45–3.50%	10/15/2013	02/01/2029	1,275,000
G.O. Improvement Bonds of 2014A	\$ 2,295,000	3.00–3.50%	07/15/2014	02/01/2030	<u>2,295,000</u>
Total governmental activity bonds payable					<u>\$ 4,135,000</u>
Business-type activities					
G.O. Improvement Bonds of 2011A	\$ 540,000	3.00–4.10%	11/01/2011	02/01/2032	\$ 485,000
G.O. Improvement Bonds of 2014A	\$ 940,000	3.00–3.50%	07/15/2014	02/01/2030	<u>940,000</u>
Total business-type activity bonds payable					<u>\$ 1,425,000</u>

NOTE 4 – LONG-TERM LIABILITIES (CONTINUED)

C. Minimum Debt Payments

Minimum annual principal and interest payments required to retire bonds payable are as follows:

Year Ending December 31,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2016	\$ 330,000	\$ 117,478	\$ 80,000	\$ 44,760
2017	450,000	106,908	85,000	42,285
2018	335,000	97,024	85,000	39,735
2019	340,000	88,448	85,000	37,185
2020	340,000	79,534	90,000	34,560
2021–2025	1,435,000	253,638	475,000	130,695
2026–2030	905,000	72,506	455,000	55,970
2031–2032	–	–	70,000	2,870
	<u>\$ 4,135,000</u>	<u>\$ 815,536</u>	<u>\$ 1,425,000</u>	<u>\$ 388,060</u>

D. Descriptions and Restrictions of Long-Term Debt

- **General Obligation Improvement Bonds** – These bonds were issued to finance various improvements and capital purchases. The governmental activity bonds will be repaid primarily from either general property taxes or special assessments levied on the properties benefiting from the improvements. The business-type activity bonds will be repaid from Water, Sewer, and Storm Sewer Enterprise Fund operating revenues pledged for the payment of these bonds.

E. Ultimate Responsibility of Debt

All long-term debt is backed by the full faith and credit of the City.

F. OPEB and Compensated Absences Payable

Long-term liabilities for personal time off, vacation, compensation time, sick leave, and OPEB will be paid by the General Fund and Water and Sewer Enterprise Funds.

G. Net Pension Liability – PERA

The details of this liability are disclosed elsewhere in these notes. Such benefits are financed by the General Fund and enterprise funds.

NOTE 4 – LONG-TERM LIABILITIES (CONTINUED)

H. Revenue Pledged

Future revenue pledged for the payment of long-term debt is as follows:

Bond Issue	Use of Proceeds	Type	Revenue Pledged		Remaining Principal and Interest	Current Year	
			Percent of Total Debt Service	Term of Pledge		Principal and Interest Paid	Pledged Revenue Received
G.O. Improvement Bonds of 2011A	Water meters and sewer infrastructure	Utility charges	100%	2012–2032	\$ 654,822	\$ 37,585	\$ 723,477
G.O. Improvement Bonds of 2014A	Water, sewer, and storm sewer improvements	Utility charges	100%	2015–2030	\$ 1,158,238	\$ 29,949	\$ 794,450

NOTE 5 – FUND BALANCES

The following is a breakdown of equity components of governmental funds which are defined earlier in the report:

	General Fund	Economic Development Authority Special Revenue Fund	G.O. Improvement Bonds of 2013A	G.O. Improvement Bonds of 2014A	Nonmajor Funds	Total
Nonspendable						
Prepaid items	\$ 12,100	\$ –	\$ –	\$ –	\$ –	\$ 12,100
Restricted						
Special revenue funds						
Recycling	\$ –	\$ –	\$ –	\$ –	\$ 27,699	\$ 27,699
Buy Forfeiture	–	–	–	–	1,308	1,308
Debt service	–	–	108,501	458,253	210,397	777,151
Total restricted	\$ –	\$ –	\$ 108,501	\$ 458,253	\$ 239,404	\$ 806,158
Assigned						
Economic Development Authority	\$ –	\$ 789,701	\$ –	\$ –	\$ –	\$ 789,701
Heritage Preservation	–	–	–	–	8,798	8,798
Pioneer Days	–	–	–	–	21,873	21,873
Capital projects						
Parks	–	–	–	–	47,116	47,116
Equipment Revolving	–	–	–	–	241,488	241,488
Capital Projects	–	–	–	–	378,762	378,762
Buildings	–	–	–	–	134,013	134,013
Total assigned	\$ –	\$ 789,701	\$ –	\$ –	\$ 832,050	\$ 1,621,751

The City had a fund balance deficit of \$85,265 in the 17th Street and Cedar Nonmajor Capital Project Fund. This deficit will be financed with future special assessment or tax levies.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

A. Plan Description

The City participates in the following cost-sharing, multiple-employer defined benefit pension plans administered by the PERA. PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. The PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

1. General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the City are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

2. Public Employees Police and Fire Fund (PEPFF)

The Public Employees Police and Fire Fund (PEPFF), originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the PEPFF also covers police officers and firefighters belonging to local relief associations that elected to merge with and transfer assets and administration to the PERA.

B. Benefits Provided

The PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the State Legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given 1 percent increases.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

1. GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for the PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

2. PEPFF Benefits

Benefits for PEPFF members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50 percent after five years up to 100 percent after 10 years of credited service. Benefits for PEPFF members first hired after June 30, 2014 vest on a prorated basis from 50 percent after 10 years up to 100 percent after 20 years of credited service. The annuity accrual rate is 3 percent of average salary for each year of service. For PEPFF members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

C. Contributions

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the State Legislature.

1. GERF Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in calendar year 2015. The City was required to contribute 7.50 percent for Coordinated Plan members in calendar year 2015. The City's contributions to the GERF for the year ended December 31, 2015 were \$49,957. The City's contributions were equal to the required contributions as set by state statute.

2. PEPFF Contributions

Plan members were required to contribute 10.80 percent of their annual covered salary in calendar year 2015. The City was required to contribute 16.20 percent of pay for PEPFF members in calendar year 2015. The City's regular contributions to the PEPFF for the year ended December 31, 2015 were \$81,499. The City's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

1. GERF Pension Costs

At December 31, 2015, the City reported a liability of \$580,443 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by the PERA during the measurement period for employer payroll paid dates from July 1, 2014 through June 30, 2015, relative to the total employer contributions received from all of the PERA's participating employers. At June 30, 2015, the City's proportionate share was 0.0112 percent, which was a decrease of 0.0013 percent from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the City recognized pension expense of \$62,055 for its proportionate share of the GERF's pension expense.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

At December 31, 2015, the City reported its proportionate share of the GERS’ deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ –	\$ 29,265
Differences between projected and actual investment earnings	54,948	–
Changes in proportion	–	45,800
Contributions paid to the PERA subsequent to the measurement date	25,615	–
Total	<u>\$ 80,563</u>	<u>\$ 75,065</u>

Deferred outflows of resources related to pensions of \$25,615 resulting from city contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,	Pension Expense Amount
2016	\$ (11,285)
2017	\$ (11,285)
2018	\$ (11,285)
2019	\$ 13,738

2. PEPFF Pension Costs

At December 31, 2015, the City reported a liability of \$636,291 for its proportionate share of the PEPFF’s net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City’s proportion of the net pension liability was based on the City’s contributions received by the PERA during the measurement period for employer payroll paid dates from July 1, 2014 through June 30, 2015, relative to the total employer contributions received from all of the PERA’s participating employers. At June 30, 2015, the City’s proportion was 0.056 percent, which was a decrease of 0.002 percent from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the City recognized pension expense of \$106,709 for its proportionate share of the PEPFF’s pension expense. The City also recognized \$5,040 for the year ended December 31, 2015, as revenue for its proportionate share of the state of Minnesota’s on-behalf contributions to the PEPFF. Legislation passed in 2013 required the state of Minnesota to begin contributing \$9 million to the PEPFF each year, starting in fiscal year 2014.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

At December 31, 2015, the City reported its proportionate share of the PEPFF’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ –	\$ 103,186
Differences between projected and actual investment earnings	110,863	–
Changes in proportion	–	18,001
Contributions paid to the PERA subsequent to the measurement date	40,760	–
Total	<u>\$ 151,623</u>	<u>\$ 121,187</u>

Deferred outflows of resources related to pensions of \$40,760 resulting from city contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expense Amount
2016	\$ 3,479
2017	\$ 3,478
2018	\$ 3,478
2019	\$ 3,478
2020	\$ (24,237)

E. Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Active member payroll growth	3.50% per year
Investment rate of return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1 percent effective every January 1st until 2034, then 2.5 percent for the GERF and the PEPFF.

Actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004 through June 30, 2008, with an update of economic assumptions in 2014. The experience study for the PEPFF was for the period July 1, 2004 through June 30, 2009.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

There were no changes in actuarial assumptions in 2015.

The long-term expected rate of return on pension plan investments is 7.9 percent. The State Board of Investment, which manages the investments of the PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	45%	5.50%
International stocks	15%	6.00%
Bonds	18%	1.45%
Alternative assets	20%	6.40%
Cash	2%	0.50%

F. Discount Rate

The discount rate used to measure the total pension liability was 7.9 percent. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in the statute. Based on that assumption, each pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

The following presents the City's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	<u>1% Decrease in Discount Rate (6.9%)</u>	<u>Discount Rate (7.9%)</u>	<u>1% Increase in Discount Rate (8.9%)</u>
The City's proportionate share of the GERF net pension liability	\$ 912,661	\$ 580,443	\$ 306,080
The City's proportionate share of the PEPPF net pension liability	\$ 1,240,138	\$ 636,291	\$ 137,408

H. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the PERA website at www.mnpera.org.

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS PLAN

A. Plan Description

The City provides post-employment benefits to certain eligible employees through the City's Other Post-Employment Benefits Plan, a single-employer defined benefit plan administered by the City. All post-employment benefits are based on contractual agreements with employee groups. As of January 1, 2015, the plan had 17 active participants and 3 retired participants. Eligibility for these benefits is based on years of service and/or minimum age requirements. These contractual agreements do not include any specific contribution or funding requirements. The plan does not issue a publicly available financial report. These benefits are summarized as follows:

Post-Employment Insurance Benefits – All retirees of the City have the option under state law to continue their medical insurance coverage through the City from the time of retirement until the employee reaches the age of eligibility for Medicare. For one employee, the City pays for all of the eligible retiree's premiums for medical insurance from the time of retirement until the employee reaches the age of eligibility for Medicare. Retirees not eligible for these city-paid premium benefits must pay the full city premium rate for their coverage.

The City is legally required to include any retirees for whom it provides health insurance coverage in the same insurance pool as its active employees, whether the premiums are paid by the City or the retiree. Consequently, participating retirees are considered to receive a secondary benefit known as an "implicit rate subsidy." This benefit relates to the assumption that the retiree is receiving a more favorable premium rate than they would otherwise be able to obtain if purchasing insurance on their own, due to being included in the same pool with the City's younger and statistically healthier active employees.

B. Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to pre-fund benefits as determined annually by the City. There is no invested plan assets accumulated for payment of future benefits.

C. Annual OPEB Cost and Net OPEB Obligation (Asset)

The City's annual OPEB cost (expense) is calculated based on annual required contributions (ARC) of the City, an amount determined on an actuarially determined basis in accordance with the parameters of GASB Statement No. 45. The ARC represents a level funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the City's net OPEB obligation (asset) to the plan:

ARC	\$	21,023
Interest on net OPEB obligation		(247)
Adjustment to ARC		318
Annual OPEB cost		<u>21,094</u>
Contributions made		<u>24,603</u>
Increase (decrease) in net OPEB obligation		(3,509)
Net OPEB obligation (asset) – beginning of year		<u>(6,181)</u>
Net OPEB obligation (asset) – end of year	\$	<u><u>(9,690)</u></u>

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS PLAN (CONTINUED)

The City's annual OPEB cost (benefit), the percentage of annual OPEB cost contributed to the plan, and the (negative) net OPEB obligation for the year are as follows:

Year Ended December 31,	Annual OPEB Cost (Benefit)	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
2013	\$ 34,780	\$ 26,421	76.0%	\$ 27,932
2014	\$ (5,359)	\$ 28,754	536.6%	\$ (6,181)
2015	\$ 21,094	\$ 24,603	116.6%	\$ (9,690)

D. Funded Status and Funding Progress

As of January 1, 2015, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$171,808, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$171,808. The covered payroll (annual payroll of active employees covered by the plan) was \$1,139,099, and the ratio of the UAAL to the covered payroll was 15.1 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress following the notes to basic financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2015 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included: a 4.0 percent investment rate of return (net of administrative expenses) based on the City's own investments; a 3.0 percent rate of projected salary increases; a general inflation rate of 2.5 percent; and an annual healthcare cost trend rate of 7.25 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 9 years. The UAAL is being amortized on a level dollar basis over a closed period. The remaining amortization base periods at January 1, 2015 range from 24 to 30 years.

NOTE 8 – DEFINED BENEFIT PENSION PLAN – FIRE RELIEF ASSOCIATION

A. Plan Description

All members of the Newport Fire Department (the Department) are covered by a defined benefit plan administered by the Association. As of December 31, 2015, the plan covered 23 active firefighters and 4 vested firefighters whose pension benefits are deferred. The plan is a single employer retirement plan and is established and administered in accordance with Minnesota Statute, Chapter 69.

The Association maintains a separate Special Fund to accumulate assets to fund the retirement benefits earned by the Department's membership. Funding for the Association is derived from an insurance premium tax in accordance with the Volunteer Firefighter's Relief Association Financing Guidelines Act of 1971 (Chapter 261 as amended by Chapter 509 of Minnesota Statutes 1980). Funds are also derived from investment income.

B. Benefits Provided

A firefighter who completes at least 20 years as an active member of the Department is entitled, after age 50, to a full service pension upon retirement.

Each member who is at least 50 years of age; who has retired from the Fire Department of the City; who has served at least 10 years of active service with such department before retirement but has not served at least 20 years of active service; and, who has been a member of the Association in good standing at least 10 years prior to such retirement, shall be entitled to a prorated lump sum service pension based on the maximum percentage applicable for the completed full years of service as prescribed by Minnesota Statute, Chapter 424A.02, Subd. 2. To compute said prorated lump sum service pension, the applicable percentage for the completed full years of service as prescribed by Minnesota Statute, Chapter 424A.02, Subd. 2, shall be multiplied by the annual sum amount set forth in the bylaws and then the product shall be further multiplied by the completed full years of service.

C. Contributions

Minnesota Statutes, Chapters 424 and 424A, authorize pension benefits for volunteer fire relief associations. The plan is funded by fire state aid, investment earnings, and, if necessary, employer contributions as specified in Minnesota Statutes and voluntary city contributions (if applicable). The state of Minnesota contributed \$20,439 in fire state aid to the plan on behalf of the Department for the year ended December 31, 2015, which was recorded as revenue. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contributions to the plan for the year ended December 31, 2015 were \$56,833. The City's contributions were equal to the required contributions as set by state statute. The City made no voluntary contributions to the plan. Furthermore, firefighters have no obligation to contribute to the plan.

D. Pension Costs

At December 31, 2015, the City reported a net pension liability (asset) of \$32,397 for the plan. The net pension liability (asset) was measured as of December 31, 2015. The total pension liability used to calculate the net pension liability (asset) in accordance with GASB Statement No. 68 was determined by applying an actuarial formula to specific census data certified by the Department as of December 31, 2015.

**NOTE 8 – DEFINED BENEFIT PENSION PLAN – FIRE RELIEF ASSOCIATION
(CONTINUED)**

The following table presents the changes in net pension liability (asset) during the year:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a-b)
	<u> </u>	<u> </u>	<u> </u>
Beginning balance – January 1, 2015	\$ 990,655	\$ 1,042,514	\$ (51,859)
Changes for the year			
Service cost	29,367	–	29,367
Interest on pension liability	52,098	–	52,098
Projected investment earnings	–	(3,361)	3,361
Contributions (employer)	–	56,833	(56,833)
Contributions (state)	–	20,439	(20,439)
Benefit payments	(145,580)	(145,580)	–
Administrative costs	–	(11,908)	11,908
Total net changes	<u>(64,115)</u>	<u>(83,577)</u>	<u>19,462</u>
Ending balance – December 31, 2015	<u>\$ 926,540</u>	<u>\$ 958,937</u>	<u>\$ (32,397)</u>

For the year ended December 31, 2015, the City recognized pension revenue of \$20,439 and pension expense of \$49,940.

At December 31, 2015, the City reported deferred outflows of resources related to pensions from the following source:

	<u>Deferred Outflows of Resources</u>
Net difference between projected and actual earnings on plan investments	<u>\$ 46,794</u>

Amounts reported as deferred outflows of resources related to the plan will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Pension Expense</u>
2016	\$ 11,699
2017	\$ 11,699
2018	\$ 11,698
2019	\$ 11,698

**NOTE 8 – DEFINED BENEFIT PENSION PLAN – FIRE RELIEF ASSOCIATION
(CONTINUED)**

E. Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of December 31, 2015 using the following actuarial assumptions, applied to all periods in the measurement:

Valuation date (liability calculations rolled forward to 12/31/15)	12/31/2014
Measurement date (assets and funded status)	12/31/2015
Actuarial cost method	Entry age normal
Amortization method	Straight-line
	Closed 5-year period
Asset valuation method	Market value
Actuarial assumptions	
Investment rate of return	5.5%
Projected salary increases	N/A
Includes inflation at	2.75%
Cost-of-living adjustments	None
Age of service retirement	50
Post-retirement benefit increases	None

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These asset class estimates are combined to produce the portfolio long-term expected rate of return by weighting the expected future real rates of return by the current asset allocation percentage (or target allocation, if available), and by adding expected inflation. All results are then rounded to the nearest quarter percentage point.

Best estimates of geometric real and nominal rates of return for each major asset class included in the pension plan’s asset allocation as of the measurement date are summarized in the following table:

Asset Class	Long-Term Expected Nominal Rate of Return
Domestic equity	8.00 %
International equity	8.00 %
Fixed income	4.50 %
Real estate and alternatives	6.50 %
Cash and equivalents	3.00 %
Total (weighted average, rounded to 1/4%)	5.50 %

F. Discount Rates

The discount rate used to measure the total pension liability was 5.5 percent. The liability discount rate was developed using the alternative method described in paragraph 43 of GASB Statement No. 67, which states that “if the evaluations required by paragraph 41 can be made with sufficient reliability without a separate projection of cash flows into and out of the pension plan, alternative methods may be applied in making the evaluations.” The determination of the discount rate assumed that the plan’s current overfunded status, combined with Minnesota statutory funding requirements, provide sufficient reliability that projected plan assets will be adequate to pay future retiree benefits. Therefore, the plan’s long-term expected return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**NOTE 8 – DEFINED BENEFIT PENSION PLAN – FIRE RELIEF ASSOCIATION
(CONTINUED)**

G. Pension Liability (Asset) Sensitivity

The following presents the City’s net pension liability (asset) for the plan, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City’s net pension liability (asset) would be if it were calculated using a discount rate 1 percent lower or 1 percent higher than the current discount rate:

	<u>1 Percent Decrease (4.5%)</u>	<u>Current (5.5%)</u>	<u>1 Percent Increase (6.5%)</u>
Defined benefit plan	\$ (10,926)	\$ (32,397)	\$ (52,546)

H. Pension Plan Fiduciary Net Position

The Association issues a publicly available financial report. This report may be obtained by writing to the Newport Fire Department Relief Association, 596 – 7th Avenue, Newport, Minnesota 55055-1515.

NOTE 9 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

A. Due To and Due From Other Funds

<u>Due to Other Funds</u>	<u>Due From Other Funds</u>
	<u>Governmental</u>
	<u>General Fund</u>
Governmental funds	
Nonmajor capital project funds	\$ 85,265

This interfund receivable and payable were made to finance short-term cash deficit balances.

B. Transfers

The following interfund transfers were made during the year ended December 31, 2015:

<u>Transfers Out</u>	<u>Transfers In</u>					<u>Total</u>
	<u>Economic Development Authority</u>	<u>G.O. Improvement Bonds of 2013A</u>	<u>Nonmajor Governmental Funds</u>	<u>Sewer Fund</u>	<u>Storm Sewer Fund</u>	
General Fund	\$ 180,500	\$ 68,707	\$ 191,518	\$ –	\$ –	\$ 440,725
Nonmajor governmental funds	–	–	–	43,763	1,539	45,302
Water Fund	–	–	–	77,443	–	77,443
	<u>\$ 180,500</u>	<u>\$ 68,707</u>	<u>\$ 191,518</u>	<u>\$ 121,206</u>	<u>\$ 1,539</u>	<u>\$ 563,470</u>

Transfers are used to finance operations of other funds, to finance capital project purchases, and to fund bond payments.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

A. State and Federal Receivables

Amounts recorded or receivable from federal and state agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of claims which may be disallowed by the grantor agencies cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

B. Commitments

The City entered into an agreement with the South Washington Watershed District (the District) to share in the costs of a project for drainage improvements that benefit the City. The District is responsible for the financing of this project that benefits multiple communities. The District issued debt to finance this project. The City is not responsible for payments on this debt service; only the cost participation agreed to by the City. The City's share of this project, as required in this agreement, will be paid annually to the District as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>
2016	\$ 20,000
2017	20,000
2018	20,000
2019	20,000
2020	20,000
2021–2025	100,000
2026–2030	100,000
2031	<u>20,000</u>
	<u><u>\$ 320,000</u></u>

C. Legal Claims

The City has the usual and customary type of miscellaneous legal claims pending at year-end. Although the outcome of these lawsuits is not presently determinable, the City's management believes that the City will not incur any material monetary loss resulting from these claims. No loss has been recorded on the City's financial statements relating to these claims.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF NEWPORT

Schedule of City's Proportionate Share of Net Pension Liability
Public Employees General Employees Retirement Fund
Year Ended December 31, 2015

City Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability (a)	City's Covered Payroll (b)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
12/31/2015	6/30/2015	0.0112%	\$ 580,443	\$ 686,064	84.60%	78.20%

Schedule of Employer Contributions
Public Employees General Employees Retirement Fund
Year Ended December 31, 2015

City Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	Statutorily Required Contributions (a)	Contributions in Relation to the Statutorily Required Contributions (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
12/31/2015	6/30/2015	\$ 49,957	\$ 49,957	\$ -	\$ 666,093	7.50%

Note: The City implemented GASB Statement No. 68 in fiscal 2015 (using a June 30, 2015 measurement date). This information is not available for previous fiscal years.

CITY OF NEWPORT

Schedule of City's Proportionate Share of Net Pension Liability
Public Employees Police and Fire Fund
Year Ended December 31, 2015

City Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability (a)	City's Covered Payroll (b)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
12/31/2015	6/30/2015	0.056%	\$ 636,291	\$ 505,258	125.93%	86.60%

Schedule of Employer Contributions
Public Employees Police and Fire Fund
Year Ended December 31, 2015

City Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	Statutorily Required Contributions (a)	Contributions in Relation to the Statutorily Required Contributions (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
12/31/2015	6/30/2015	\$ 81,499	\$ 81,499	\$ -	\$ 503,080	16.20%

Note: The City implemented GASB Statement No. 68 in fiscal 2015 (using a June 30, 2015 measurement date). This information is not available for previous fiscal years.

CITY OF NEWPORT

Required Supplementary Information

Schedule of Changes in the Newport Fire Department
Relief Association's Net Pension Liability and Related Ratios
Required Supplementary Information (Last Ten Years*)

	December 31, 2015
Total pension liability	
Service cost	\$ 29,367
Interest	52,098
Benefit payments	(145,580)
Net change in total pension liability	<u>(64,115)</u>
Total pension liability – beginning	<u>990,655</u>
Total pension liability – ending	<u><u>\$ 926,540</u></u>
Plan fiduciary net position	
Contributions (state and local)	\$ 77,272
Net investment income	(3,361)
Benefit payments	(145,580)
Administrative costs	(11,908)
Net change in plan fiduciary net position	<u>(83,577)</u>
Total pension liability – beginning	1,042,514
Total pension liability – ending	<u><u>\$ 958,937</u></u>
Net pension liability (asset) – ending	<u><u>\$ (32,397)</u></u>
Plan fiduciary net position as a percentage of the total pension liability	<u><u>103.50%</u></u>

Schedule of Employer Contributions
Newport Fire Department Relief Association
Required Supplementary Information (Last Ten Years*)
Year Ended December 31, 2015

City Fiscal Year End Date	Statutorily Required Contributions (a)	Contributions in Relation to the Statutorily Required Contributions (b)	Contribution Deficiency (Excess) (a-b)	Voluntary City Contribution
12/31/15	\$ 56,833	\$ 56,833	\$ –	\$ –

* This schedule is provided prospectively beginning with the fiscal year ended December 31, 2015.

CITY OF NEWPORT

Other Post-Employment Benefits Plan
 Schedule of Funding Progress
 December 31, 2015

Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Plan Assets	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Payroll
January 1, 2009	\$ 303,132	\$ -	\$ 303,132	- %	\$ 1,056,643	28.7 %
January 1, 2012	\$ 223,699	\$ -	\$ 223,699	- %	\$ 1,079,874	20.7 %
January 1, 2015	\$ 171,808	\$ -	\$ 171,808	- %	\$ 1,139,099	15.1 %

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SUPPLEMENTAL INFORMATION

CITY OF NEWPORT

Combining Balance Sheet
 Nonmajor Governmental Funds
 as of December 31, 2015

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Totals</u>
Assets				
Cash and temporary investments	\$ 59,678	\$ 203,372	\$ 801,489	\$ 1,064,539
Receivables				
Current taxes	-	3,140	-	3,140
Current special assessments	-	3,885	-	3,885
Delinquent special assessments	-	1,822	-	1,822
Deferred special assessments	-	9,000	16,416	25,416
	<u>59,678</u>	<u>221,219</u>	<u>817,905</u>	<u>1,098,802</u>
Total assets	<u>\$ 59,678</u>	<u>\$ 221,219</u>	<u>\$ 817,905</u>	<u>\$ 1,098,802</u>
Liabilities				
Accounts and contracts payable	\$ -	\$ -	\$ 110	\$ 110
Due to other funds	-	-	85,265	85,265
Total liabilities	<u>-</u>	<u>-</u>	<u>85,375</u>	<u>85,375</u>
Deferred inflows of resources				
Unavailable revenue – special assessments	-	10,822	16,416	27,238
Fund balances (deficit)				
Restricted	29,007	210,397	-	239,404
Assigned	30,671	-	801,379	832,050
Unassigned	-	-	(85,265)	(85,265)
Total fund balances	<u>59,678</u>	<u>210,397</u>	<u>716,114</u>	<u>986,189</u>
	<u>\$ 59,678</u>	<u>\$ 221,219</u>	<u>\$ 817,905</u>	<u>\$ 1,098,802</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 59,678</u>	<u>\$ 221,219</u>	<u>\$ 817,905</u>	<u>\$ 1,098,802</u>

CITY OF NEWPORT

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
 Nonmajor Governmental Funds
 Year Ended December 31, 2015

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Totals</u>
Revenue				
Property taxes	\$ -	\$ 212,095	\$ -	\$ 212,095
Special assessments	-	30,982	3,149	34,131
Intergovernmental	14,692	-	21,489	36,181
Investment earnings	43	237	1,807	2,087
Miscellaneous	6,258	-	675	6,933
Total revenue	<u>20,993</u>	<u>243,314</u>	<u>27,120</u>	<u>291,427</u>
Expenditures				
Current				
General government	10,040	300	-	10,340
Parks and recreation	13,689	-	-	13,689
Capital outlay	-	-	228,946	228,946
Debt service				
Principal retirement	-	308,000	-	308,000
Interest and fiscal charges	-	22,655	132	22,787
Total expenditures	<u>23,729</u>	<u>330,955</u>	<u>229,078</u>	<u>583,762</u>
Excess (deficiency) of revenue over expenditures	(2,736)	(87,641)	(201,958)	(292,335)
Other financing sources (uses)				
Transfers in	9,000	87,518	95,000	191,518
Transfers out	-	-	(45,302)	(45,302)
Total other financing sources (uses)	<u>9,000</u>	<u>87,518</u>	<u>49,698</u>	<u>146,216</u>
Net change in fund balances	6,264	(123)	(152,260)	(146,119)
Fund balances				
Beginning of year	<u>53,414</u>	<u>210,520</u>	<u>868,374</u>	<u>1,132,308</u>
End of year	<u>\$ 59,678</u>	<u>\$ 210,397</u>	<u>\$ 716,114</u>	<u>\$ 986,189</u>

CITY OF NEWPORT

Combining Balance Sheet
 Nonmajor Special Revenue Funds
 as of December 31, 2015

	<u>Heritage Preservation</u>	<u>Recycling</u>	<u>Buy Forfeiture</u>	<u>Pioneer Days</u>	<u>Total</u>
Assets					
Cash and temporary investments	\$ 8,798	\$ 27,699	\$ 1,308	\$ 21,873	\$ 59,678
Fund balances					
Restricted	\$ -	\$ 27,699	\$ 1,308	\$ -	\$ 29,007
Assigned	8,798	-	-	21,873	30,671
Total fund balances	<u>\$ 8,798</u>	<u>\$ 27,699</u>	<u>\$ 1,308</u>	<u>\$ 21,873</u>	<u>\$ 59,678</u>

CITY OF NEWPORT

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
 Nonmajor Special Revenue Funds
 Year Ended December 31, 2015

	Heritage Preservation	Recycling	Buy Forfeiture	Pioneer Days	Total
Revenue					
Intergovernmental	\$ 6,900	\$ 7,792	\$ -	\$ -	\$ 14,692
Investment earnings	3	18	3	19	43
Miscellaneous					
Donations	-	-	-	6,258	6,258
Total revenue	<u>6,903</u>	<u>7,810</u>	<u>3</u>	<u>6,277</u>	<u>20,993</u>
Expenditures					
Current					
General government	-	5,168	-	4,872	10,040
Parks and recreation	<u>13,689</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,689</u>
Total expenditures	<u>13,689</u>	<u>5,168</u>	<u>-</u>	<u>4,872</u>	<u>23,729</u>
Excess (deficiency) of revenue over expenditures	(6,786)	2,642	3	1,405	(2,736)
Other financing sources					
Transfers in	<u>9,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,000</u>
Net change in fund balances	2,214	2,642	3	1,405	6,264
Fund balances					
Beginning of year	<u>6,584</u>	<u>25,057</u>	<u>1,305</u>	<u>20,468</u>	<u>53,414</u>
End of year	<u>\$ 8,798</u>	<u>\$ 27,699</u>	<u>\$ 1,308</u>	<u>\$ 21,873</u>	<u>\$ 59,678</u>

CITY OF NEWPORT

Combining Balance Sheet
 Nonmajor Debt Service Funds
 as of December 31, 2015

	<u>G.O. Improvement Bonds of 2002A</u>	<u>PFA G.O. Bonds of 2002</u>	<u>G.O. Refunding Bonds of 2010</u>
Assets			
Cash and temporary investments	\$ 728	\$ 7,335	\$ 20,651
Receivables			
Current taxes	-	-	1,854
Current special assessments	-	3,885	-
Delinquent special assessments	1,105	717	-
Deferred special assessments	-	9,000	-
	<u>728</u>	<u>13,137</u>	<u>18,505</u>
Total assets	<u>\$ 1,833</u>	<u>\$ 20,937</u>	<u>\$ 22,505</u>
Deferred inflows of resources			
Unavailable revenue – special assessments	\$ 1,105	\$ 9,717	\$ -
Fund balances			
Restricted	<u>728</u>	<u>11,220</u>	<u>22,505</u>
Total deferred inflows of resources and fund balances	<u>\$ 1,833</u>	<u>\$ 20,937</u>	<u>\$ 22,505</u>

<u>G.O. Improvement Bonds of 2011A</u>	<u>Total</u>
\$ 174,658	\$ 203,372
1,286	3,140
—	3,885
—	1,822
—	9,000
<u>\$ 175,944</u>	<u>\$ 221,219</u>
\$ —	\$ 10,822
175,944	210,397
<u>\$ 175,944</u>	<u>\$ 221,219</u>

CITY OF NEWPORT

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
 Nonmajor Debt Service Funds
 Year Ended December 31, 2015

	<u>G.O. Improvement Bonds of 2002A</u>	<u>PFA G.O. Bonds of 2002</u>	<u>G.O. Refunding Bonds of 2010</u>
Revenue			
Property taxes	\$ -	\$ -	\$ 125,222
Special assessments	728	30,254	-
Investment earnings	-	97	25
Total revenue	<u>728</u>	<u>30,351</u>	<u>125,247</u>
Expenditures			
Current			
General government			
Other	-	300	-
Debt service			
Principal retirement	-	123,000	115,000
Interest and fiscal charges	-	1,710	5,615
Total expenditures	<u>-</u>	<u>125,010</u>	<u>120,615</u>
Excess (deficiency) of revenue over expenditures	728	(94,659)	4,632
Other financing sources (uses)			
Transfers in	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	728	(94,659)	4,632
Fund balances			
Beginning of year	<u>-</u>	<u>105,879</u>	<u>17,873</u>
End of year	<u>\$ 728</u>	<u>\$ 11,220</u>	<u>\$ 22,505</u>

<u>G.O. Improvement Bonds of 2011A</u>	<u>Total</u>
\$ 86,873	\$ 212,095
-	30,982
115	237
86,988	243,314
-	300
70,000	308,000
15,330	22,655
85,330	330,955
1,658	(87,641)
87,518	87,518
89,176	(123)
86,768	210,520
\$ 175,944	\$ 210,397

CITY OF NEWPORT

Combining Balance Sheet
 Nonmajor Capital Project Funds
 as of December 31, 2015

	Parks	Equipment Revolving	4th Avenue Ravine	North Ravine
Assets				
Cash and temporary investments	\$ 47,116	\$ 241,488	\$ 12,781	\$ 60,202
Receivables				
Deferred special assessments	-	-	-	16,416
Total assets	\$ 47,116	\$ 241,488	\$ 12,781	\$ 76,618
Liabilities				
Accounts and contracts payable	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-
Total liabilities	-	-	-	-
Deferred inflows of resources				
Unavailable revenue – special assessments	-	-	-	16,416
Fund balances (deficit)				
Assigned	47,116	241,488	12,781	60,202
Unassigned	-	-	-	-
Total fund balances (deficit)	47,116	241,488	12,781	60,202
Total liabilities, deferred inflows of resources, and fund balances	\$ 47,116	\$ 241,488	\$ 12,781	\$ 76,618

Highway 61 Project	17th Street and Cedar	Street Construction	Buildings	Total
\$ 132,837	\$ -	\$ 173,052	\$ 134,013	\$ 801,489
-	-	-	-	16,416
<u>\$ 132,837</u>	<u>\$ -</u>	<u>\$ 173,052</u>	<u>\$ 134,013</u>	<u>\$ 817,905</u>
\$ -	\$ -	\$ 110	\$ -	\$ 110
-	85,265	-	-	85,265
-	85,265	110	-	85,375
-	-	-	-	16,416
132,837	-	172,942	134,013	801,379
-	(85,265)	-	-	(85,265)
<u>132,837</u>	<u>(85,265)</u>	<u>172,942</u>	<u>134,013</u>	<u>716,114</u>
<u>\$ 132,837</u>	<u>\$ -</u>	<u>\$ 173,052</u>	<u>\$ 134,013</u>	<u>\$ 817,905</u>

CITY OF NEWPORT

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
 Nonmajor Capital Project Funds
 Year Ended December 31, 2015

	Parks	Equipment Revolving	4th Avenue Ravine	North Ravine
Revenue				
Special assessments	\$ –	\$ –	\$ –	\$ 3,149
Intergovernmental	–	–	–	–
Investment earnings	51	255	11	68
Miscellaneous				
Donations	675	–	–	–
Total revenue	<u>726</u>	<u>255</u>	<u>11</u>	<u>3,217</u>
Expenditures				
Capital outlay	15,965	59,629	–	–
Debt service				
Interest and fiscal charges	–	–	–	22
Total expenditures	<u>15,965</u>	<u>59,629</u>	<u>–</u>	<u>22</u>
Excess (deficiency) of revenue over expenditures	(15,239)	(59,374)	11	3,195
Other financing sources (uses)				
Transfers in	20,000	42,500	–	–
Transfers out	–	–	–	–
Total other financing sources (uses)	<u>20,000</u>	<u>42,500</u>	<u>–</u>	<u>–</u>
Net change in fund balances	4,761	(16,874)	11	3,195
Fund balances (deficit)				
Beginning of year	<u>42,355</u>	<u>258,362</u>	<u>12,770</u>	<u>57,007</u>
End of year	<u>\$ 47,116</u>	<u>\$ 241,488</u>	<u>\$ 12,781</u>	<u>\$ 60,202</u>

Highway 61 Project	17th Street and Cedar	Street Construction	Buildings	Total
\$ -	\$ -	\$ -	\$ -	\$ 3,149
-	-	21,489	-	21,489
143	-	1,151	128	1,807
-	-	-	-	675
143	-	22,640	128	27,120
16,238	85,265	47,750	4,099	228,946
-	-	110	-	132
16,238	85,265	47,860	4,099	229,078
(16,095)	(85,265)	(25,220)	(3,971)	(201,958)
-	-	-	32,500	95,000
-	-	(45,302)	-	(45,302)
-	-	(45,302)	32,500	49,698
(16,095)	(85,265)	(70,522)	28,529	(152,260)
148,932	-	243,464	105,484	868,374
\$ 132,837	\$ (85,265)	\$ 172,942	\$ 134,013	\$ 716,114

CITY OF NEWPORT

General Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual
 Year Ended December 31, 2015
 (With Comparative Actual Amounts for the Year Ended December 31, 2014)

	2015		2014	
	Final Budget	Actual	Over (Under) Budget	Actual
Revenue				
Property taxes				
Current ad valorem	\$ 1,698,499	\$ 1,798,975	\$ 100,476	\$ 1,780,332
Fiscal disparities	358,965	301,394	(57,571)	288,232
Fire relief	56,833	18,439	(38,394)	63,897
Total property taxes	<u>2,114,297</u>	<u>2,118,808</u>	<u>4,511</u>	<u>2,132,461</u>
Licenses and permits				
Conditional use permits	–	2,450	2,450	2,950
Licenses and permits	11,750	975	(10,775)	1,450
Alcoholic beverages	8,600	8,660	60	8,660
Cigarette licenses	500	1,000	500	500
Building permit fees	50,000	56,758	6,758	60,321
Animal licenses/citations	2,000	2,220	220	2,255
Recycling/sanitation	2,400	3,300	900	1,500
Total licenses and permits	<u>75,250</u>	<u>75,363</u>	<u>113</u>	<u>77,636</u>
Intergovernmental				
State				
Local governmental aid	632,974	654,481	21,507	627,489
Police town aid	45,000	55,829	10,829	53,312
Police training reimbursement	2,300	2,332	32	2,314
State fire relief aid	12,500	24,973	12,473	17,656
Other/miscellaneous grants	30,000	33,004	3,004	18,625
Total intergovernmental	<u>722,774</u>	<u>770,619</u>	<u>47,845</u>	<u>719,396</u>
Charges for services				
Planning and zoning	1,000	–	(1,000)	–
Accident reports	100	289	189	197
Franchise fees	83,000	79,222	(3,778)	80,869
Miscellaneous	250	14,446	14,196	11,839
Total charges for services	<u>84,350</u>	<u>93,957</u>	<u>9,607</u>	<u>92,905</u>
Fines and forfeits	52,000	61,850	9,850	66,381
Investment earnings	8,000	23,478	15,478	24,376

(continued)

CITY OF NEWPORT

General Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual (continued)
 Year Ended December 31, 2015
 (With Comparative Actual Amounts for the Year Ended December 31, 2014)

	2015		Over (Under) Budget	2014
	Final Budget	Actual		Actual
Revenue (continued)				
Miscellaneous				
Rent or sale of property	–	–	–	5,611
Donations	8,000	10,669	2,669	4,757
Other	14,000	49,352	35,352	45,511
Total miscellaneous	<u>22,000</u>	<u>60,021</u>	<u>38,021</u>	<u>55,879</u>
Total revenue	3,078,671	3,204,096	125,425	3,169,034
Expenditures				
Current				
General government				
Mayor and City Council				
Personal services	21,422	21,654	232	21,367
Travel/conferences	300	755	455	312
Memberships	100	50	(50)	75
Education	1,000	1,050	50	325
Miscellaneous	–	291	291	–
Total Mayor and City Council	<u>22,822</u>	<u>23,800</u>	<u>978</u>	<u>22,079</u>
Administration				
Personal services	184,645	183,195	(1,450)	181,257
Insurance	32,585	31,939	(646)	26,448
Office supplies	7,500	3,603	(3,897)	4,933
Communications	2,000	489	(1,511)	1,167
Equipment, repairs, and maintenance	14,000	–	(14,000)	–
Travel	2,000	3,036	1,036	2,297
Printing and publishing	9,000	3,842	(5,158)	7,657
Postage	4,400	3,069	(1,331)	3,648
Dues and subscriptions	6,600	7,207	607	6,988
Education	4,000	5,675	1,675	3,774
Contractual services	10,000	7,949	(2,051)	1,833
Capital outlay	2,000	3,904	1,904	4,812
Miscellaneous	5,000	5,640	640	7,209
Total administration	<u>283,730</u>	<u>259,548</u>	<u>(24,182)</u>	<u>252,023</u>

(continued)

CITY OF NEWPORT

General Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual (continued)
 Year Ended December 31, 2015
 (With Comparative Actual Amounts for the Year Ended December 31, 2014)

	2015		Over (Under) Budget	2014
	Final Budget	Actual		Actual
Expenditures (continued)				
Current (continued)				
General government (continued)				
Elections				
Temporary employees	1,150	944	(206)	2,774
Operating supplies	100	16	(84)	474
Miscellaneous	500	300	(200)	563
Total elections	<u>1,750</u>	<u>1,260</u>	<u>(490)</u>	<u>3,811</u>
Professional services				
Accounting/audit	61,000	60,207	(793)	61,560
Engineering	28,000	36,785	8,785	2,888
Legal	72,000	74,343	2,343	65,414
IT, phone support, and hardware	40,000	38,403	(1,597)	34,710
Building inspection	15,500	11,878	(3,622)	14,442
Insurance	71,000	66,924	(4,076)	70,937
Miscellaneous contracted services	28,000	23,753	(4,247)	11,722
Total professional services	<u>315,500</u>	<u>312,293</u>	<u>(3,207)</u>	<u>261,673</u>
Planning and zoning				
Personal services	1,938	1,517	(421)	664
Operating supplies	500	20	(480)	18
Professional services	32,000	33,988	1,988	37,447
Miscellaneous	1,000	23	(977)	316
Total planning and zoning	<u>35,438</u>	<u>35,548</u>	<u>110</u>	<u>38,445</u>
Composting				
Personal services	4,970	5,274	304	4,373
Operating supplies	50	244	194	80
Miscellaneous	600	433	(167)	473
Total composting	<u>5,620</u>	<u>5,951</u>	<u>331</u>	<u>4,926</u>
Special projects				
Special contributions	750	153	(597)	309
Miscellaneous				
Contingency	10,000	7,463	(2,537)	9,150

(continued)

CITY OF NEWPORT

General Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual (continued)
 Year Ended December 31, 2015
 (With Comparative Actual Amounts for the Year Ended December 31, 2014)

	2015		Over (Under) Budget	2014
	Final Budget	Actual		Actual
Expenditures (continued)				
Current (continued)				
General government (continued)				
Government buildings				
City Hall				
Operating supplies	500	696	196	165
Repairs and maintenance	4,100	4,291	191	156
Utilities	8,750	6,654	(2,096)	8,333
Capital outlay	4,000	5,297	1,297	670
Total City Hall	17,350	16,938	(412)	9,324
Library				
Personnel	14,400	9,695	(4,705)	12,445
Operating supplies	750	539	(211)	717
Repairs and maintenance	750	237	(513)	26
Utilities	4,800	4,011	(789)	3,949
Capital outlay	3,500	1,111	(2,389)	519
Total library	24,200	15,593	(8,607)	17,656
Railroad tower				
Operating supplies	200	–	(200)	–
Utilities	600	359	(241)	380
Total railroad tower	800	359	(441)	380
Total government buildings	42,350	32,890	(9,460)	27,360
Total general government	717,960	678,906	(39,054)	619,776
Public safety				
Police department				
Personal services	652,950	813,059	160,109	658,241
Insurance	81,850	76,823	(5,027)	86,940
Office supplies	3,000	5,507	2,507	3,243
Communications – telephones and pagers	3,400	6,938	3,538	4,070
Vehicle supplies	6,000	4,270	(1,730)	3,040
Tools and equipment	1,000	452	(548)	941
Fuel	28,000	16,199	(11,801)	26,155

(continued)

CITY OF NEWPORT

General Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual (continued)
 Year Ended December 31, 2015
 (With Comparative Actual Amounts for the Year Ended December 31, 2014)

	2015		Over (Under) Budget	2014
	Final Budget	Actual		Actual
Expenditures (continued)				
Current (continued)				
Public safety (continued)				
Police department (continued)				
Uniforms	8,500	9,115	615	6,156
Travel	—	—	—	264
Departmental services	8,600	3,706	(4,894)	8,126
Memberships and conferences	400	481	81	275
Education	5,000	4,170	(830)	5,811
Vehicle repair and maintenance	4,000	5,159	1,159	2,976
Dispatch	40,200	39,953	(247)	40,141
MDT lease – Washington County	6,000	7,000	1,000	6,000
Capital outlay	7,500	4,394	(3,106)	7,598
Total police department	856,400	997,226	140,826	859,977
Fire Station No. 1				
Operating supplies	500	157	(343)	—
Repairs and maintenance	1,000	1,151	151	971
Utilities	7,500	6,617	(883)	8,391
Capital outlay	1,200	—	(1,200)	—
Total Fire Station No. 1	10,200	7,925	(2,275)	9,362
Fire Station No. 2				
Operating supplies	100	—	(100)	—
Repairs and maintenance	400	—	(400)	—
Utilities	2,500	1,866	(634)	2,542
Capital outlay	—	—	—	185
Total Fire Station No. 2	3,000	1,866	(1,134)	2,727
Fire protection				
Personal services	43,203	56,080	12,877	30,698
Insurance	7,000	6,762	(238)	8,068
Office supplies	2,500	748	(1,752)	173
Vehicle supplies	16,200	14,276	(1,924)	10,073
Tools and equipment	4,200	1,846	(2,354)	3,258
Fuel	3,000	2,385	(615)	3,236
Uniforms	1,200	2,430	1,230	195
Communication	1,650	1,250	(400)	1,596
Travel and conferences	800	1,450	650	389

(continued)

CITY OF NEWPORT

General Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual (continued)
 Year Ended December 31, 2015
 (With Comparative Actual Amounts for the Year Ended December 31, 2014)

	2015		Over (Under) Budget	2014
	Final Budget	Actual		Actual
Expenditures (continued)				
Current (continued)				
Public safety (continued)				
Fire protection (continued)				
Memberships and subscriptions	800	754	(46)	534
Education	8,000	11,620	3,620	2,280
Repairs and maintenance	850	291	(559)	25
Contractual	7,000	6,584	(416)	8,060
Fire relief	56,833	56,833	–	63,897
State fire relief aid	13,000	38,979	25,979	20,656
Capital outlay	15,000	–	(15,000)	14,808
Total fire protection	<u>181,236</u>	<u>202,288</u>	<u>21,052</u>	<u>167,946</u>
Total public safety	1,050,836	1,209,305	158,469	1,040,012
Public works				
Streets				
Personal services	135,125	129,896	(5,229)	144,286
Insurance	48,370	42,614	(5,756)	56,000
Materials and supplies	50,000	51,151	1,151	46,904
Vehicle supplies	15,000	12,791	(2,209)	13,450
Small tools and equipment	2,000	–	(2,000)	2,752
Fuel	16,000	9,305	(6,695)	14,010
Uniforms	4,000	1,858	(2,142)	1,014
Communications	6,000	1,789	(4,211)	1,551
Rentals	3,000	171	(2,829)	–
Seal coat	80,000	79,739	(261)	79,379
Repairs and maintenance	5,000	3,069	(1,931)	3,942
Miscellaneous contractual	10,000	5,496	(4,504)	9,233
Miscellaneous	4,400	1,683	(2,717)	855
Capital outlay	2,000	–	(2,000)	–
Total streets	<u>380,895</u>	<u>339,562</u>	<u>(41,333)</u>	<u>373,376</u>

(continued)

CITY OF NEWPORT

General Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual (continued)
 Year Ended December 31, 2015
 (With Comparative Actual Amounts for the Year Ended December 31, 2014)

	2015		Over (Under) Budget	2014
	Final Budget	Actual		Actual
Expenditures (continued)				
Current (continued)				
Public works (continued)				
Public works garage				
Operating supplies	1,000	1,965	965	2,076
Repairs and maintenance	1,500	2,683	1,183	1,399
Utilities	12,700	14,677	1,977	18,475
Capital outlay	2,000	–	(2,000)	10,776
Total public works garage	<u>17,200</u>	<u>19,325</u>	<u>2,125</u>	<u>32,726</u>
Total public works	398,095	358,887	(39,208)	406,102
Parks and recreation				
Parks				
Personal services	243,830	269,206	25,376	233,424
Insurance	47,545	43,376	(4,169)	46,710
Operating supplies	10,000	7,102	(2,898)	5,454
Vehicle supplies	5,000	4,867	(133)	4,088
Tools and minor equipment	3,000	2,419	(581)	1,636
Fuel	8,000	5,730	(2,270)	7,906
Uniforms	1,500	1,990	490	1,205
Rental	1,500	–	(1,500)	–
Communications	1,500	344	(1,156)	572
Miscellaneous	500	571	71	464
Miscellaneous contractual	10,000	9,353	(647)	9,681
Capital outlay	10,000	10,148	148	3,609
Total parks	<u>342,375</u>	<u>355,106</u>	<u>12,731</u>	<u>314,749</u>
Park buildings				
Operating supplies	500	–	(500)	–
Repairs and maintenance	705	124	(581)	467
Utilities	5,000	3,726	(1,274)	5,636
Total park buildings	<u>6,205</u>	<u>3,850</u>	<u>(2,355)</u>	<u>6,103</u>

(continued)

CITY OF NEWPORT

General Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual (continued)
 Year Ended December 31, 2015
 (With Comparative Actual Amounts for the Year Ended December 31, 2014)

	2015		2014	
	Final Budget	Actual	Over (Under) Budget	Actual
Expenditures (continued)				
Current (continued)				
Parks and recreation (continued)				
Recreation				
Personal services	2,700	1,954	(746)	2,486
Supplies	500	296	(204)	311
Total recreation	<u>3,200</u>	<u>2,250</u>	<u>(950)</u>	<u>2,797</u>
Total parks and recreation	<u>351,780</u>	<u>361,206</u>	<u>9,426</u>	<u>323,649</u>
Total expenditures	<u>2,518,671</u>	<u>2,608,304</u>	<u>89,633</u>	<u>2,389,539</u>
Excess of revenue over expenditures	560,000	595,792	35,792	779,495
Other financing (uses)				
Transfers (out)				
Economic Development Authority	(361,000)	(180,500)	180,500	(218,500)
Heritage Preservation Fund	(9,000)	(9,000)	-	(7,200)
G.O. Improvement Bonds of 2011A Fund	-	(87,518)	(87,518)	-
G.O. Improvement Bonds of 2013A Fund	-	(68,707)	(68,707)	-
Parks Fund	(40,000)	(20,000)	20,000	(32,000)
Equipment Revolving Fund	(65,000)	(42,500)	22,500	(278,000)
Building Fund	(85,000)	(32,500)	52,500	(70,000)
Total other financing (uses)	<u>(560,000)</u>	<u>(440,725)</u>	<u>119,275</u>	<u>(605,700)</u>
Net change in fund balances	<u>\$ -</u>	<u>155,067</u>	<u>\$ 155,067</u>	<u>173,795</u>
Fund balances				
Beginning of year		<u>2,092,886</u>		<u>1,919,091</u>
End of year		<u>\$ 2,247,953</u>		<u>\$ 2,092,886</u>

CITY OF NEWPORT

Comparative Schedule of Revenue, Expenses, and Changes in Net Position
 Water Fund
 Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenue		
Water sales	\$ 274,161	\$ 266,575
Permits and licenses	404	315
Total operating revenue	<u>274,565</u>	<u>266,890</u>
Operating expenses		
Salaries	84,648	91,579
Employee benefits	17,598	18,657
Insurance	13,118	14,540
Supplies	19,685	30,678
Utilities	29,966	29,618
Depreciation	70,308	65,851
Other	71,416	71,096
Total operating expenses	<u>306,739</u>	<u>322,019</u>
Operating income (loss)	(32,174)	(55,129)
Nonoperating revenue (expenses)		
State grant and aids	6,474	-
Investment earnings	409	591
Miscellaneous revenues	1,762	-
Interest and fiscal charges	(18,638)	(16,480)
Total nonoperating revenue (expenses)	<u>(9,993)</u>	<u>(15,889)</u>
Income (loss) before transfers	(42,167)	(71,018)
Transfers (out)	<u>(77,443)</u>	<u>(2,748)</u>
Change in net position	(119,610)	(73,766)
Net position		
Beginning of year, as previously reported	1,812,571	1,886,337
Change in accounting principle	(75,984)	-
Beginning of year, as restated	<u>1,736,587</u>	<u>1,886,337</u>
End of year	<u>\$ 1,616,977</u>	<u>\$ 1,812,571</u>

CITY OF NEWPORT

Comparative Schedule of Revenue, Expenses, and Changes in Net Position
Sewer Fund
Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenue		
Sewer charges	\$ 449,316	\$ 375,767
Permits and licenses	509	315
Total operating revenue	<u>449,825</u>	<u>376,082</u>
Operating expenses		
Salaries	88,679	91,540
Employee benefits	17,509	18,685
MCES sewer charges	192,011	249,564
Insurance	17,330	18,725
Supplies	15,110	7,546
Utilities	8,579	12,255
Depreciation	45,114	95,525
Other	26,025	15,537
Total operating expenses	<u>410,357</u>	<u>509,377</u>
Operating income (loss)	39,468	(133,295)
Nonoperating revenue (expense)		
State grant and aids	49,864	7,450
Investment earnings	639	911
Miscellaneous revenues	1,762	-
Interest and fiscal charges	(27,310)	(24,360)
Total nonoperating revenue (expense)	<u>24,955</u>	<u>(15,999)</u>
Income (loss) before transfers	64,423	(149,294)
Transfers in	121,206	-
Transfers (out)	<u>-</u>	<u>(16,731)</u>
Change in net position	185,629	(166,025)
Net position		
Beginning of year, as previously reported	1,599,004	1,765,029
Change in accounting principle	(75,984)	-
Beginning of year, as restated	<u>1,523,020</u>	<u>1,765,029</u>
End of year	<u>\$ 1,708,649</u>	<u>\$ 1,599,004</u>

CITY OF NEWPORT

Comparative Schedule of Revenue, Expenses, and Changes in Net Position
 Street Light Fund
 Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenue		
Street light charges	\$ 72,924	\$ 65,440
Operating expenses		
Salaries	6,964	6,349
Employee benefits	1,044	944
Insurance	1,157	1,083
Utilities	42,122	43,458
Miscellaneous	22	16
Total operating expenses	<u>51,309</u>	<u>51,850</u>
Operating income	21,615	13,590
Nonoperating revenue		
Investment earnings	<u>37</u>	<u>39</u>
Change in net position	21,652	13,629
Net position		
Beginning of year	<u>39,251</u>	<u>25,622</u>
End of year	<u>\$ 60,903</u>	<u>\$ 39,251</u>

CITY OF NEWPORT

Comparative Schedule of Revenue, Expenses, and Changes in Net Position
 Storm Sewer Fund
 Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenue		
Storm sewer charges	\$ 70,973	\$ 41,739
Operating expenses		
Salaries	10,473	6,349
Employee benefits	1,931	944
Insurance	2,047	1,083
Professional services	-	22,457
Depreciation	1,596	-
Miscellaneous	20,630	4,524
Total operating expenses	<u>36,677</u>	<u>35,357</u>
Operating income (loss)	34,296	6,382
Nonoperating revenue (expenses)		
Investments earnings	29	32
Interest and fiscal charges	(7,087)	(5,726)
Total nonoperating revenue (expenses)	<u>(7,058)</u>	<u>(5,694)</u>
Income before transfers	27,238	688
Transfers in	1,539	-
Transfers (out)	<u>-</u>	<u>(2,903)</u>
Change in net position	28,777	(2,215)
Net position		
Beginning of year, as previously reported	14,592	16,807
Change in accounting principle	<u>(16,885)</u>	<u>-</u>
Beginning of year, as restated	<u>(2,293)</u>	<u>16,807</u>
End of year	<u>\$ 26,484</u>	<u>\$ 14,592</u>

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OTHER INFORMATION SECTION

CITY OF NEWPORT

General Fund Revenue by Source
Last Ten Fiscal Years

Fiscal Year	Taxes Ad Valorem	Licenses and Permits	Intergovernmental Revenue	Charges for Services	Fines and Forfeits	Other	Total
2006	\$ 1,439,535	\$ 83,106	\$ 735,158	\$ 47,161	\$ 67,983	\$ 35,074	\$ 2,408,017
2007	1,567,725	127,610	775,644	65,820	92,431	41,611	2,670,841
2008	1,605,806	49,556	735,823	74,150	68,970	27,851	2,562,156
2009	1,621,491	58,189	960,484	77,659	44,362	19,105	2,781,290
2010	1,770,305	95,967	681,760	65,760	52,659	29,037	2,695,488
2011	2,014,552	83,258	714,480	79,732	70,006	126,871	3,088,899
2012	2,113,254	75,652	692,136	93,339	58,234	194,075	3,226,690
2013	2,118,004	89,767	674,822	98,929	68,193	86,215	3,135,930
2014	2,132,461	77,636	719,396	92,905	66,381	80,255	3,169,034
2015	2,118,808	75,363	770,619	93,957	61,850	83,499	3,204,096

CITY OF NEWPORT

General Fund Expenditures by Function
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>General Government</u>	<u>Public Safety</u>	<u>Public Works</u>	<u>Parks and Recreation</u>	<u>Capital Outlay</u>	<u>Total</u>
2006	\$ 646,651	\$ 889,690	\$ 324,662	\$ 211,530	\$ –	\$ 2,072,533
2007	723,768	933,206	448,252	206,695	–	2,311,921
2008	757,078	962,786	539,004	246,688	–	2,505,556
2009	897,309	972,500	400,331	280,417	215,215	2,765,772
2010	740,140	930,242	399,078	284,025	46,031	2,399,516
2011	809,100	989,367	449,533	336,573	26,930	2,611,503
2012	700,253	964,427	503,054	260,114	51,169	2,479,017
2013	666,612	975,112	400,294	381,842	56,304	2,480,164
2014	613,775	1,017,421	395,326	320,040	42,977	2,389,539
2015	668,594	1,204,726	358,887	351,058	25,039	2,608,304

Note: In fiscal 2009, the City started to separate certain capital outlay into a separate category in the General Fund.

CITY OF NEWPORT

Tax Capacities
Last Ten Fiscal Years

Taxes Payable Year	Tax Capacities		Fiscal Disparities Adjustment to Tax Capacity	Tax Increment Adjustment to Tax Capacity	Taxable Tax Capacity
	Real Property	Personal Property			
2006	\$ 3,484,558	\$ 116,422	\$ (414,502)	\$ (293,452)	\$ 2,893,026
2007	3,819,541	120,052	(409,985)	(328,501)	3,201,107
2008	3,972,247	117,824	(469,114)	(339,552)	3,281,405
2009	4,195,052	120,186	(503,975)	(350,780)	3,460,483
2010	4,026,435	113,498	(592,742)	(350,453)	3,196,738
2011	3,741,949	125,202	(594,438)	–	3,272,713
2012	3,507,580	136,990	(552,806)	–	3,091,764
2013	3,360,643	137,604	(583,921)	–	2,914,326
2014	3,340,253	141,958	(586,835)	–	2,895,376
2015	3,408,448	155,320	(603,423)	–	2,960,345

Note: Tax capacity is calculated by applying class rate (for specific property classifications such as residential, commercial, etc.) to the assessed market value. Class rates are periodically changed by the state.

Source: Washington County

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OTHER REQUIRED REPORTS

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the City Council and Management
City of Newport, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newport, Minnesota (the City) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 1, 2016.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2015-001 and 2015-002, that we consider to be material weaknesses.

(continued)

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

CITY'S RESPONSES TO FINDINGS

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
June 1, 2016

INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE

To the City Council and Management
City of Newport, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newport, Minnesota (the City) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 1, 2016.

MINNESOTA LEGAL COMPLIANCE

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the Office of the State Auditor pursuant to Minnesota Statute § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
June 1, 2016

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CITY OF NEWPORT

Schedule of Findings and Responses
Year Ended December 31, 2015

A. FINDINGS – FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESSES

2015-001 Segregation of Duties

Criteria – Internal control over financial reporting.

Condition – The City of Newport, Minnesota (the City) has limited segregation of duties over processing of cash receipts, cash disbursements, payroll, general journal entries, and utility billing transactions.

Context – This is a current year and prior year finding.

Cause – The limited segregation of duties is primarily caused by the limited size of the City’s office staff.

Effect – One important element of internal accounting controls is an adequate segregation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction. A lack of segregation of duties subjects the City to a higher risk that errors or fraud could occur and not be detected in a timely manner in the normal course of business.

Recommendation – We recommend that the City continue its efforts to segregate duties as best it can within the limits of what the City considers to be cost beneficial.

Corrective Action Plan

Actions Planned – The City will continue its efforts to segregate duties as best it can within the limits of what the City considers to be cost beneficial.

Official Responsible – City Administrator.

Planned Completion Date – December 31, 2016.

Disagreement With or Explanation of Finding – The City is in agreement with this finding.

Plan to Monitor – The City will continue its efforts to segregate duties as best it can within the limits of what the City considers to be cost beneficial.

CITY OF NEWPORT

Schedule of Findings and Reponses (continued)
Year Ended December 31, 2015

A. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

MATERIAL WEAKNESSES (CONTINUED)

2015-002 Preparation of Financial Statements

Criteria – Management is responsible for establishing and maintaining effective internal controls. These controls include the responsibility for preparation, or oversight of the preparation, of the financial statements in accordance with accounting principles generally accepted in the United States of America.

Condition – Other than the Management’s Discussion and Analysis, the City had our firm prepare the accompanying annual financial statements. Like many similarly-sized organizations, the City requested assistance from us with the drafting of the annual financial statements and related notes. Although this is common practice and may be the most practical and cost-effective method to complete this task, the fact that the City does not have the internal resources available to prepare the annual financial statements is considered a deficiency.

Context – This is a current year and prior year finding.

Cause – The City does not have the internal resources available to prepare its own annual financial statements, and has made the decision that from a cost-benefit perspective, it is more efficient to have the auditor prepare them than to contract with another outside party.

Effect – The auditor prepared the draft of the City’s annual financial statements and disclosures.

Recommendation – We recommend that the City consider whether it is cost-beneficial to either provide training to its internal staff that would enable the City to prepare its own financial statements, or contract with another outside party to prepare them.

Corrective Action Plan

Actions Planned – The City will determine as to whether it is practical and cost-effective for the City or an outside contractor to prepare its financial statements in the future.

Official Responsible – City Administrator.

Planned Completion Date – December 31, 2016.

Disagreement With or Explanation of Finding – The City is in agreement with this finding.

Plan to Monitor – The City Administrator will continue to monitor this deficiency and establish policies and procedures within the limits of the staff available.

Management Report
for
City of Newport, Minnesota
December 31, 2015

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PRINCIPALS

Thomas M. Montague, CPA
Thomas A. Karnowski, CPA
Paul A. Radosevich, CPA
William J. Lauer, CPA
James H. Eichten, CPA
Aaron J. Nielsen, CPA
Victoria L. Holinka, CPA

To the City Council and Management
City of Newport, Minnesota

We have prepared this management report in conjunction with our audit of the City of Newport, Minnesota's (the City) financial statements for the year ended December 31, 2015. The purpose of this report is to provide comments resulting from our audit process and to communicate information relevant to city finances in Minnesota. We have organized this report into the following sections:

- Audit Summary
- Governmental Funds Overview
- Enterprise Funds Overview
- Government-Wide Financial Statements
- Legislative Updates
- Accounting and Auditing Updates

We would be pleased to further discuss any of the information contained in this report or any other concerns that you would like us to address. We would also like to express our thanks for the courtesy and assistance extended to us during the course of our audit.

The purpose of this report is solely to provide those charged with governance of the City, management, and those who have responsibility for oversight of the financial reporting process comments resulting from our audit process and information relevant to city finances in Minnesota. Accordingly, this report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
June 1, 2016

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AUDIT SUMMARY

The following is a summary of our audit work, key conclusions, and other information that we consider important or that is required to be communicated to the City Council, administration, or those charged with governance of the City.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA AND *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2015, and the related notes to the financial statements. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you verbally and in our audit engagement letter. Professional standards also require that we communicate the following information related to our audit.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously discussed and coordinated in order to obtain sufficient audit evidence and complete an effective audit.

AUDIT OPINION AND FINDINGS

Based on our audit of the City's financial statements for the year ended December 31, 2015:

- We have issued an unmodified opinion on the City's basic financial statements. Our report included a paragraph emphasizing that the City implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, during the year ended December 31, 2015. Our opinion was not modified with respect to this matter.
- We reported two matters involving the City's internal controls over financial reporting that we consider to be material weaknesses:
 - 1) Due to the limited size of the City's office staff, the City has limited segregation of duties in certain areas.
 - 2) Like many similarly-sized organizations, the City requested assistance from us with the drafting of the annual financial statements and related notes.
- The results of our testing disclosed no instances of noncompliance required to be reported under *Government Auditing Standards*.
- We reported no findings based on our testing of the City's compliance with Minnesota laws and regulations.

FOLLOW-UP ON PRIOR YEAR FINDINGS AND RECOMMENDATIONS

As a part of our audit of the City's financial statements for the year ended December 31, 2015, we performed procedures to follow-up on the findings and recommendations that resulted from our prior year audit. We reported the following finding that was corrected by the City in the current year:

- In the prior year, we noted a finding in our testing of the City's compliance with Minnesota laws and regulations for the City not obtaining certification that the contractors complied with the withholding requirements of Minnesota Statutes prior to making final payment on the contract. There was no similar finding in the current year.

SIGNIFICANT ACCOUNTING POLICIES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 of the notes to basic financial statements.

The City implemented GASB Statement Nos. 68 and 71 during the year ended December 31, 2015. These statements provide new guidance on accounting and financial reporting for pensions accounted for in the financial statements of plan employers. Implementation of these standards resulted in an adjustment to the beginning equity reported in the City's government-wide and enterprise fund financial statements, as described in Note 1 of the notes to basic financial statements. The application of remaining policies was not changed during the year ended December 31, 2015.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

ACCOUNTING ESTIMATES AND MANAGEMENT JUDGMENTS

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- **Depreciation** – Management's estimates of depreciation expense are based on the estimated useful lives of the assets.
- **Net Other Post-Employment Benefit (OPEB) and Net Pension Liabilities** – The City has recorded liabilities and activity for other post-employment benefits (OPEB) and pension benefits. These obligations are calculated using actuarial methodologies described in GASB Statements Nos. 45 and 68. These actuarial calculations include significant assumptions, including projected changes, healthcare insurance costs, investment returns, retirement ages, proportionate share, and employee turnover.
- **Compensated Absences** – Management's estimate is based on current rates of pay, vacation, and sick leave balances estimated to be paid out as future termination pay.

We evaluated the key factors and assumptions used by management to develop these accounting estimates in determining that they are reasonable in relation to the basic financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Where applicable, management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management, when applicable, were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this report, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter dated June 1, 2016.

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

OTHER MATTERS

We applied certain limited procedures to Management's Discussion and Analysis and the pension and OPEB-related required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were not engaged to report on the supplemental information accompanying the financial statements, which are not RSI. With respect to this supplemental information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplemental information to the underlying accounting records used to prepare the basic financial statements or to the basic financial statements themselves.

We were not engaged to report on the introductory section and other information section, which accompany the financial statements, but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

GOVERNMENTAL FUNDS OVERVIEW

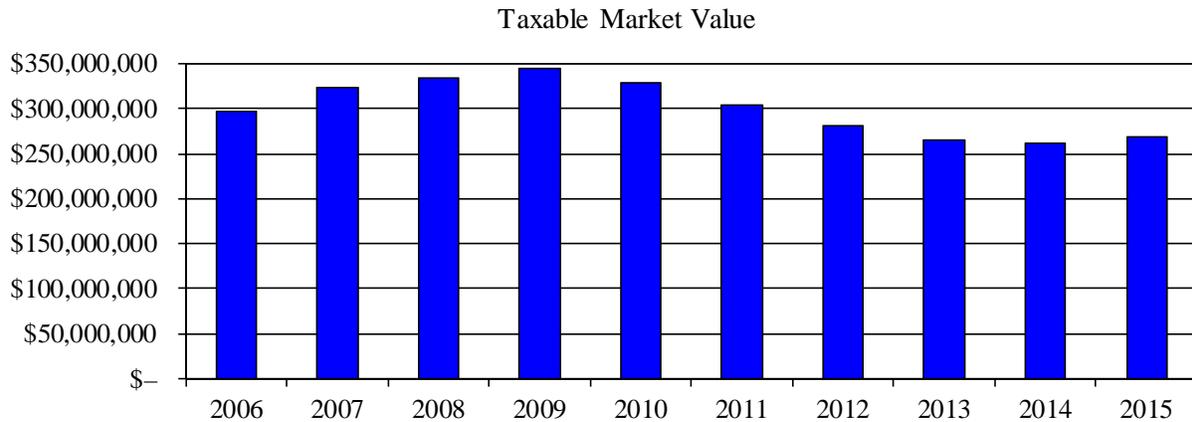
This section of the report provides you with an overview of the financial trends and activities of the City's governmental funds, which include the General, special revenue, debt service, and capital project funds. These funds are used to account for the basic services the City provides to all of its citizens, which are financed primarily with property taxes. The governmental fund information in the City's financial statements focuses on budgetary compliance, and the sufficiency of each governmental fund's current assets to finance its current liabilities.

PROPERTY TAXES

Minnesota cities rely heavily on local property tax levies to support their governmental fund activities. For the 2014 fiscal year, local ad valorem property tax levies provided 39.0 percent of the total governmental fund revenues for cities over 2,500 in population, and 35.5 percent for cities under 2,500 in population. Property tax levies certified by Minnesota cities for 2015 increased about 4.0 percent over 2014, compared to an increase of 1.6 percent the prior year. A one-year levy limit imposed on cities over 2,500 in population for the 2014 levy year was lifted for the 2015 levy year.

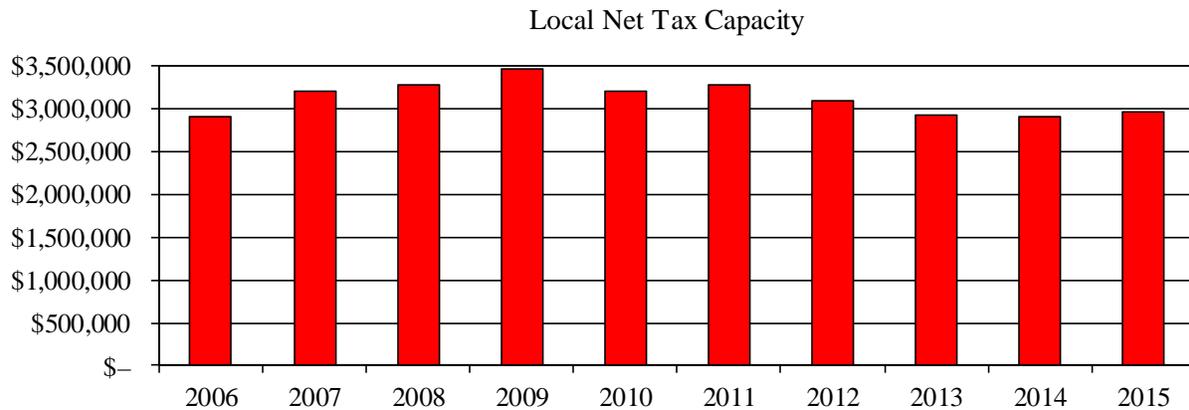
The total market value of property in Minnesota cities increased about 8.5 percent for the 2015 levy year, following a modest increase of 1.1 percent for levy year 2014 and a four-year trend of declining market values for levy years 2010 through 2013. Market values showed increases across all property categories for 2015, with gains in the market values of residential homestead properties (10.0 percent) and non-homestead residential properties (9.7 percent) outpacing the market value gain of commercial/industrial properties (2.2 percent). Because the assessed valuation used for levying property taxes is based on values from the previous fiscal year (e.g., the market value for taxes payable in 2015 is based on estimated values as of January 1, 2014), market value improvement has lagged behind recent upturns in the housing market and the economy in general.

The City's taxable market value decreased 1.3 percent for taxes payable in 2014 and increased 2.8 percent for taxes payable in 2015. The following graph shows the City's changes in taxable market value over the past 10 years:



Tax capacity is considered the actual base available for taxation. It is calculated by applying the state's property classification system to each property's market value. Each property classification, such as commercial or residential, has a different calculation and uses different rates. Consequently, a city's total tax capacity will change at a different rate than its total market value, as tax capacity is affected by the proportion of the City's tax base that is in each property classification from year-to-year, as well as legislative changes to tax rates. The City's tax capacity decreased 0.7 percent and increased 2.2 percent for taxes payable in 2014 and 2015, respectively.

The following graph shows the City's change in tax capacities over the past 10 years:



The improvement in property tax capacities contributed to decreases to the overall state-wide and metro area tax rates for 2015. The following table presents the average tax rates applied to city residents for each of the last two levy years, along with comparative state-wide and metro area rates:

Rates expressed as a percentage of net tax capacity						
	All Cities State-Wide		Seven-County Metro Area		City of Newport	
	2014	2015	2014	2015	2014	2015
Average tax rate						
City	48.8	46.9	46.0	43.4	72.1	70.0
County	47.6	44.7	46.6	42.9	32.8	30.2
School	28.9	27.1	30.9	28.3	39.2	35.7
Special taxing	7.3	6.9	9.5	8.8	5.4	4.9
Total	132.6	125.6	133.0	123.4	149.5	140.8

The City's portion of the tax rate has been higher than average in recent years, primarily due to the levies financing the City's street improvement program debt.

GOVERNMENTAL FUND BALANCES

The following table summarizes the changes in the fund balances of the City’s governmental funds during the year ended December 31, 2015:

Governmental Funds Change in Fund Balance			
	Fund Balance as of December 31,		Increase (Decrease)
	<u>2015</u>	<u>2014</u>	
Fund balances of governmental funds			
Total by classification			
Nonspendable	\$ 12,100	\$ 14,769	\$ (2,669)
Restricted	806,158	1,364,169	(558,011)
Assigned	1,621,751	651,962	969,789
Unassigned	<u>2,150,588</u>	<u>2,078,117</u>	<u>72,471</u>
Total – governmental funds	<u><u>\$ 4,590,597</u></u>	<u><u>\$ 4,109,017</u></u>	<u><u>\$ 481,580</u></u>
Total by fund			
General	\$ 2,247,953	\$ 2,092,886	\$ 155,067
Economic Development Authority	789,701	455,982	333,719
Debt service funds	777,151	638,361	138,790
Capital project funds	716,114	868,374	(152,260)
Special revenue funds	<u>59,678</u>	<u>53,414</u>	<u>6,264</u>
Total – governmental funds	<u><u>\$ 4,590,597</u></u>	<u><u>\$ 4,109,017</u></u>	<u><u>\$ 481,580</u></u>

In total, the fund balances of the City’s governmental funds increased by \$481,580 during the year ended December 31, 2015.

GOVERNMENTAL FUNDS REVENUE AND EXPENDITURES

The following table presents the per capita revenue of the City's governmental funds for the past three years, along with state-wide averages.

We have included the most recent comparative state-wide averages available from the Office of the State Auditor to provide a benchmark for interpreting your City's data. The amounts received from the typical major sources of governmental fund revenue will naturally vary between cities based on factors such as the City's stage of development, location, size and density of its population, property values, services it provides, and other attributes. It will also differ from year-to-year due to the effect of inflation and changes in the City's operation. Also, certain data on these tables may be classified differently than how they appear on the City's financial statements in order to be more comparable to the state-wide information, particularly in separating capital expenditures from current expenditures.

We have designed this section of our management report using per capita data in order to better identify unique or unusual trends and activities of your city. We intend for this type of comparative and trend information to complement, rather than duplicate, information in the Management's Discussion and Analysis. An inherent difficulty in presenting per capita information is the accuracy of the population count, which for most years is based on estimates.

Governmental Funds Revenue per Capita								
With State-Wide Averages by Population Class								
Year	State-Wide			City of Newport				
	December 31, 2014			2013	2014	2015		
Population	2,500-10,000	10,000-20,000	20,000-100,000	3,479	3,482	3,482		
Property taxes	\$ 427	\$ 396	\$ 427	\$ 674	\$ 697	\$ 699		
Tax increments	26	37	46	-	-	-		
Franchise and other taxes	32	42	37	-	-	-		
Special assessments	59	51	64	87	98	53		
Licenses and permits	28	27	41	26	22	22		
Intergovernmental revenues	298	264	166	226	218	276		
Charges for services	105	82	90	28	27	27		
Other	66	72	65	51	48	60		
Total revenue	<u>\$ 1,041</u>	<u>\$ 971</u>	<u>\$ 936</u>	<u>\$ 1,092</u>	<u>\$ 1,110</u>	<u>\$ 1,137</u>		

In total, the City's governmental fund revenues for 2015 were \$3,958,206, an increase of \$94,182, or 2.4 percent, from the prior year. The City has historically had a larger percentage of its revenue come in the form of property taxes, and a lower percentage from charges for services than average for Minnesota cities in its population class. The City experienced an increase in total per capita revenue of \$27 in fiscal 2015. The largest increase was in intergovernmental revenues totaling \$58. This increase is related to local government aid (LGA) and other miscellaneous grants. This increase was partially offset by a decrease in special assessment revenue in 2015, due to the prior year receiving higher revenues for the 2014A G.O. Improvement Bonds.

The expenditures of governmental funds will also vary from state-wide averages and from year-to-year, based on the City's circumstances. Expenditures are classified into three types as follows:

- **Current** – These are typically the general operating type expenditures occurring on an annual basis, and are primarily funded by general sources such as taxes and intergovernmental revenues.
- **Capital Outlay and Construction** – These expenditures do not occur on a consistent basis, more typically fluctuating significantly from year-to-year. Many of these expenditures are project-oriented, and are often funded by specific sources that have benefited from the expenditure, such as special assessment improvement projects.
- **Debt Service** – Although the expenditures for debt service may be relatively consistent over the term of the respective debt, the funding source is the important factor. Some debt may be repaid through specific sources such as special assessments or redevelopment funding, while other debt may be repaid with general property taxes.

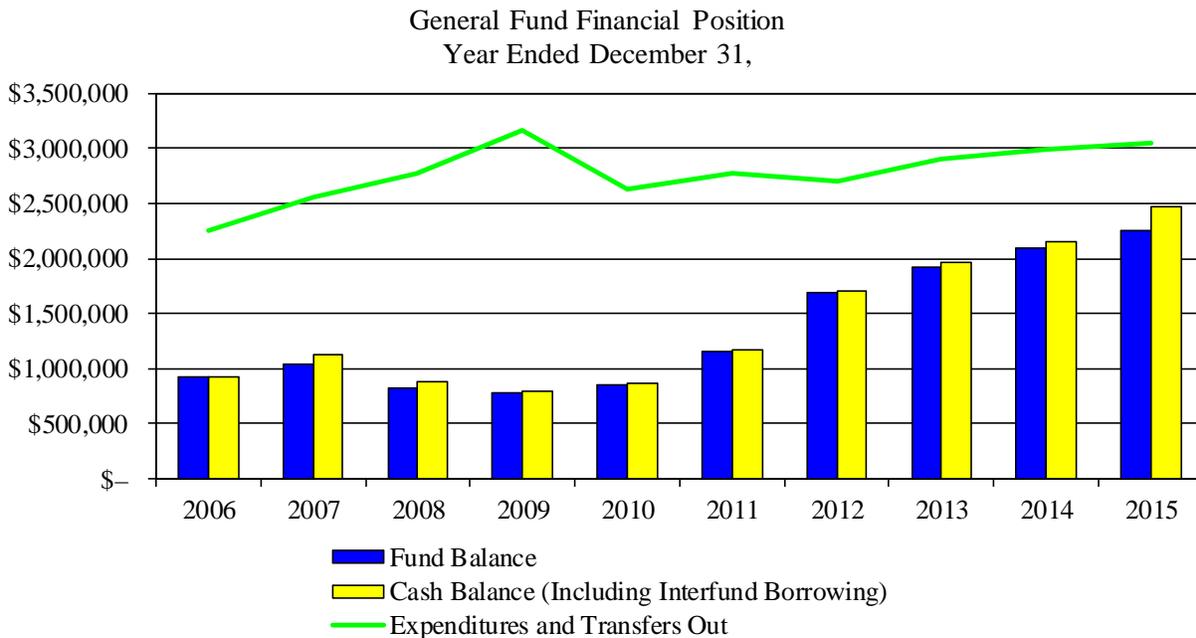
The City's expenditures per capita of its governmental funds for the past three years, together with state-wide averages, are presented in the following table:

Governmental Funds Expenditures per Capita							
With State-Wide Averages by Population Class							
Year	State-Wide			City of Newport			
	December 31, 2014			2013	2014	2015	
Population	2,500–10,000	10,000–20,000	20,000–100,000	3,479	3,482	3,482	
Current							
General government	\$ 131	\$ 104	\$ 87	\$ 194	\$ 179	\$ 195	
Public safety	248	237	254	280	292	346	
Streets and highways	121	119	114	115	114	103	
Culture and recreation	86	101	92	111	97	105	
All other	69	89	98	37	114	16	
	<u>\$ 655</u>	<u>\$ 650</u>	<u>\$ 645</u>	<u>\$ 737</u>	<u>\$ 796</u>	<u>\$ 765</u>	
Capital outlay and construction	<u>\$ 357</u>	<u>\$ 278</u>	<u>\$ 276</u>	<u>\$ 519</u>	<u>\$ 869</u>	<u>\$ 73</u>	
Debt service							
Principal	\$ 180	\$ 163	\$ 115	\$ 109	\$ 114	\$ 110	
Interest and fiscal	54	40	34	30	32	37	
	<u>\$ 234</u>	<u>\$ 203</u>	<u>\$ 149</u>	<u>\$ 139</u>	<u>\$ 146</u>	<u>\$ 147</u>	
Total expenditures	<u>\$ 1,246</u>	<u>\$ 1,131</u>	<u>\$ 1,070</u>	<u>\$ 1,395</u>	<u>\$ 1,810</u>	<u>\$ 985</u>	

Total expenditures in the City's governmental funds for 2015 were \$3,431,324, a decrease of \$2,870,255 from the prior year. The City's costs for general government are traditionally higher than state-wide averages. General government includes expenditures for the mayor and City Council, administration, elections, professional services, planning and zoning, composting, special projects, and government buildings. The major reduction in 2015 was in capital outlay and construction, due to no street reconstruction projects in 2015. Public safety expenses increased mainly due to the police department being paid out their compensated absence balances.

GENERAL FUND

The City's General Fund accounts for the financial activity of the basic services provided to the community. The primary services included within this fund are the administration of the municipal operation, police and fire protection, building inspection, streets and highway maintenance, and parks and recreation. The graph below illustrates the change in the General Fund financial position over the last 10 years. We have also included a line representing annual expenditures and operating transfers out to reflect the change in the size of the General Fund operation over the same period.

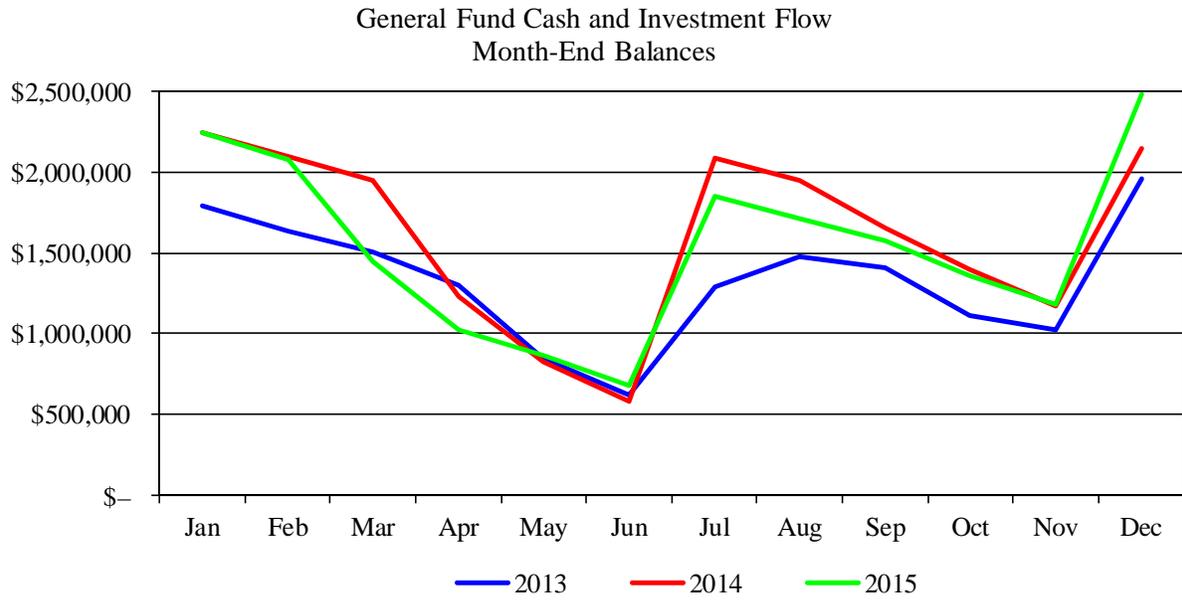


The City's General Fund position improved in 2015 with fund balance increasing by \$155,067 to \$2,247,953. As the graph illustrates, the City has generally been able to maintain healthy cash and fund balance levels as the volume of financial activity has grown. This is an important factor because a government, like any organization, requires a certain amount of equity to operate. A healthy financial position allows the City to avoid volatility in tax rates; helps minimize the impact of state funding changes; allows for the adequate and consistent funding of services, repairs, and unexpected costs; and is a factor in determining the City's bond rating and resulting interest costs. Maintaining an adequate fund balance has become increasingly important given the fluctuations in state funding for cities in recent years.

At December 31, 2015, the City's fund balance as a percentage of 2015 expenditures and transfers is 73.7 percent. The Office of the State Auditor recommends this percentage be between 35 and 50 percent.

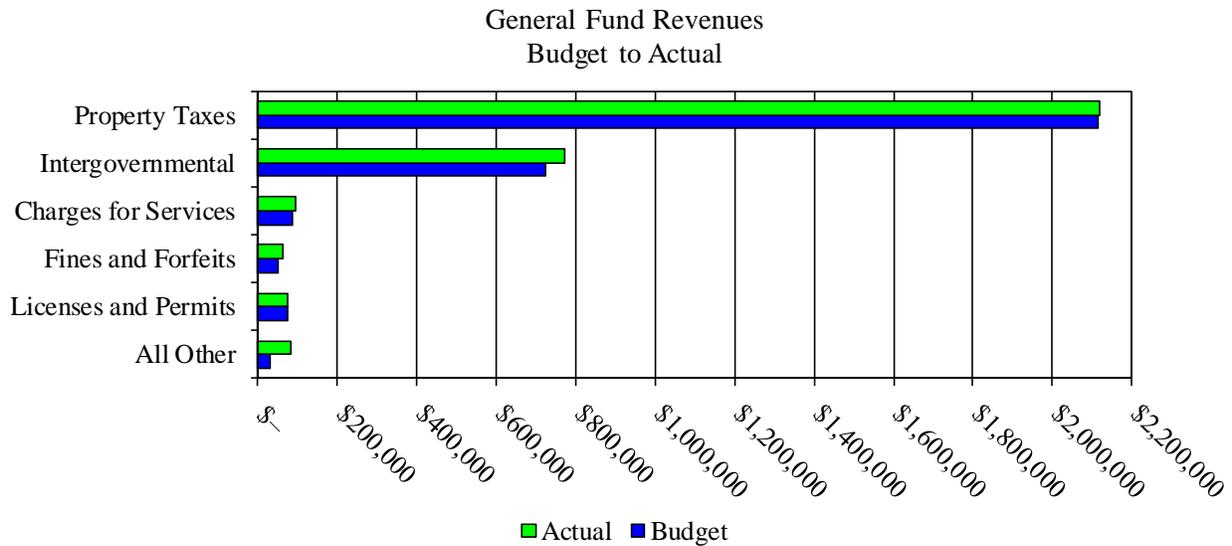
A trend that is typical to Minnesota local governments, especially the General Fund of cities, is the unusual cash flow experienced throughout the year. The City's General Fund cash disbursements are made fairly evenly during the year other than the impact of seasonal services such as snowplowing, street maintenance, and park activities. Cash receipts of the General Fund are quite a different story. Taxes comprise about 66.1 percent of the fund's total annual revenue. Approximately half of these revenues are received by the City in July and the rest in December. Consequently, the City needs to have adequate cash reserves to finance its everyday operations between these payments.

The following graph illustrates the monthly cash flow of the General Fund for the past three years:



Due to the improved financial condition, the General Fund has maintained positive cash flow throughout the last three years.

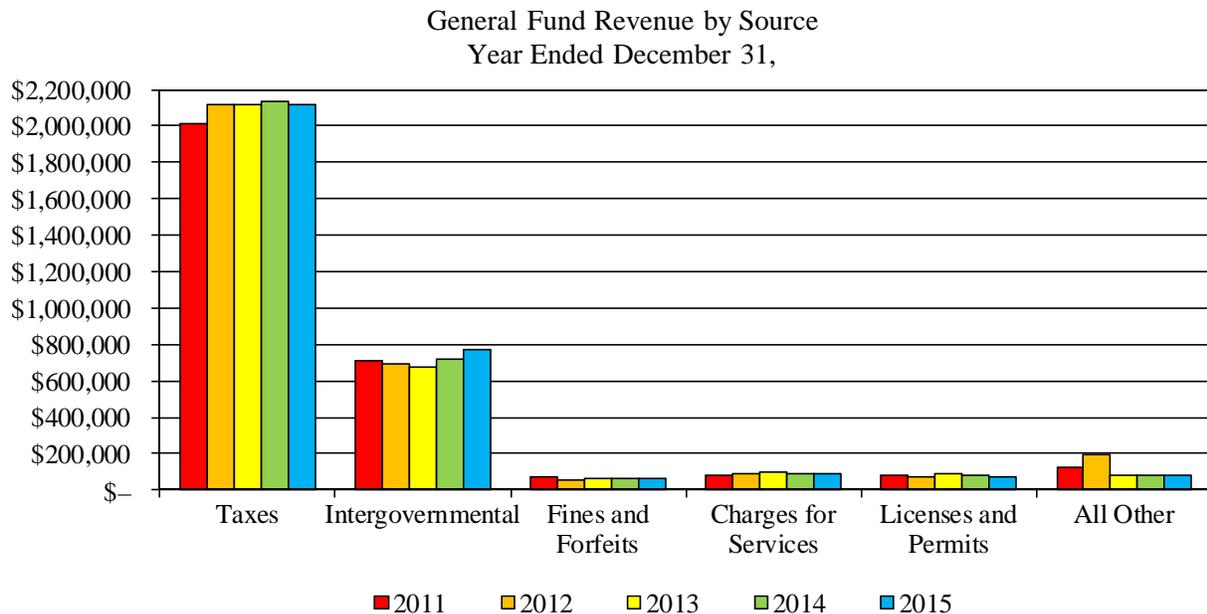
The following chart reflects the City's General Fund revenue sources for 2015 compared to budget:



General Fund revenue for 2015 was \$3,204,096, which was \$125,425 (4.1 percent) higher than budget.

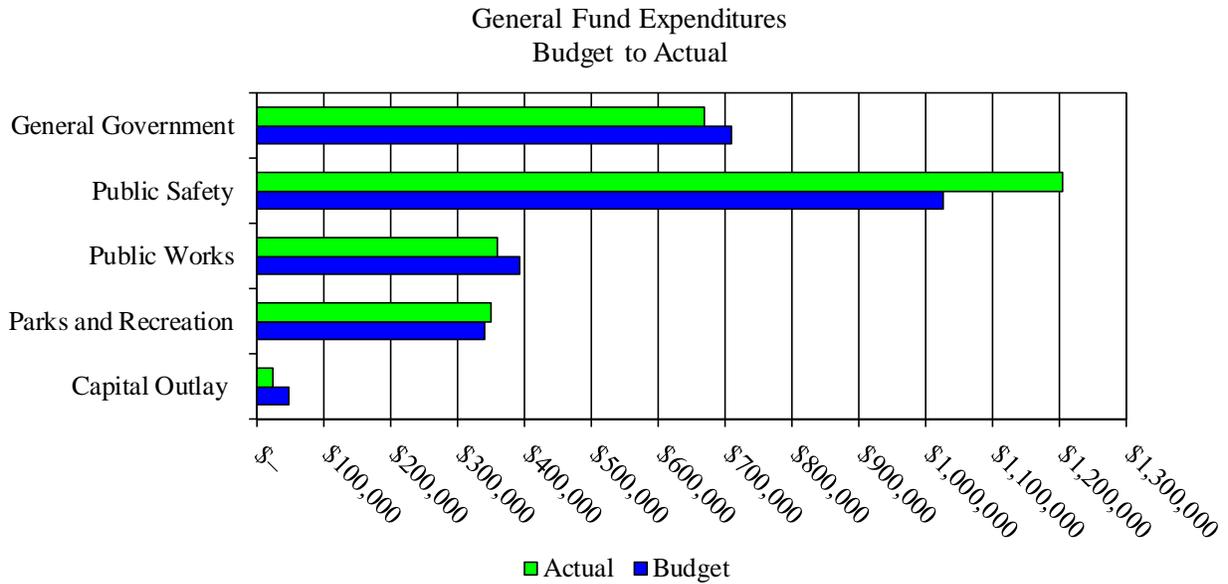
Actual financial results were better than projected due to higher than anticipated revenue in most categories, including the “all other” category (\$53,499). Most of the excess in that category was from grants and other reimbursements that were not anticipated in the fiscal 2015 budget.

The following chart reflects the City's General Fund sources of revenue for the past five fiscal years:



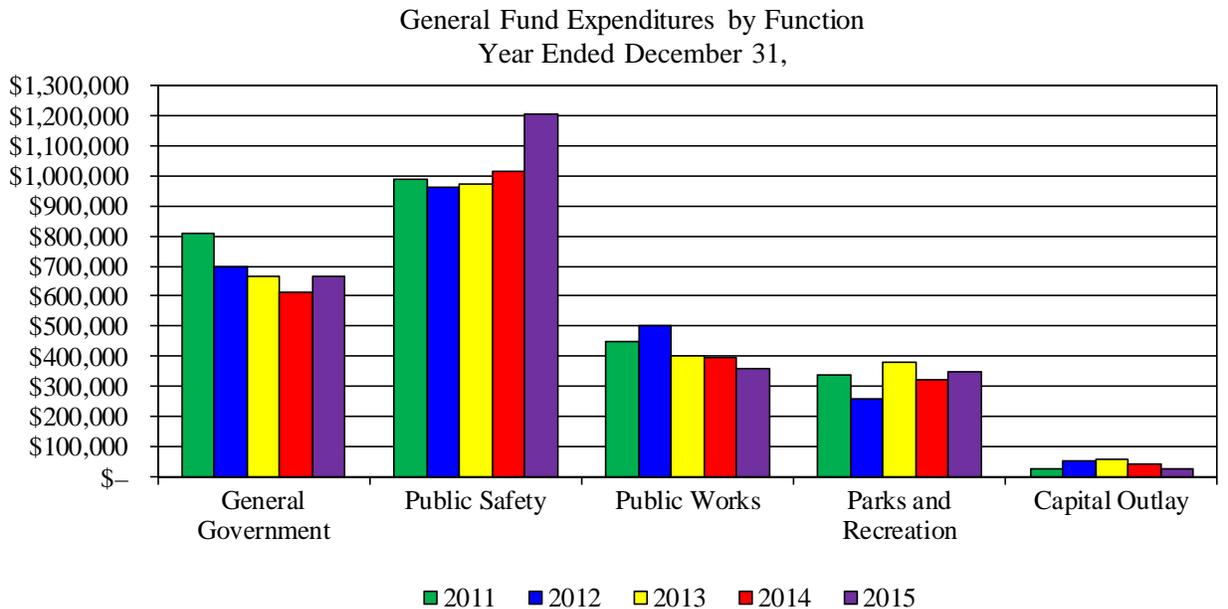
Total General Fund revenue for 2015 was \$35,062 (1.1 percent) higher than last year. Intergovernmental revenues increased by \$51,223 as the City received greater LGA in fiscal 2015.

The following graphs illustrate the components of General Fund spending for 2015 compared to budget:



Actual expenditures were \$89,633, or 3.6 percent, higher than budgeted amounts. Public safety expenditures were higher than budget by \$177,590, mostly due to compensated absence payouts in 2015 for the police department.

The following graph provides General Fund expenditures by function for the last five years:



Total General Fund expenditures for 2015 were \$2,609,304, an increase of \$218,765 from the previous year. Public safety expenditures increased, due to compensated absences payouts for police officers in 2015.

ENTERPRISE FUNDS OVERVIEW

The City maintains a number of enterprise funds to account for services the City provides that are financed primarily through fees charged to those utilizing the service. This section of the report provides you with an overview of the financial trends and activities of the City's enterprise funds, which includes the Water, Sewer, Storm Sewer, and Street Light Utility Funds.

ENTERPRISE FUNDS FINANCIAL POSITION

The following table summarizes the changes in the financial position of the City's enterprise funds during the year ended December 31, 2015, presented both by classification and by fund:

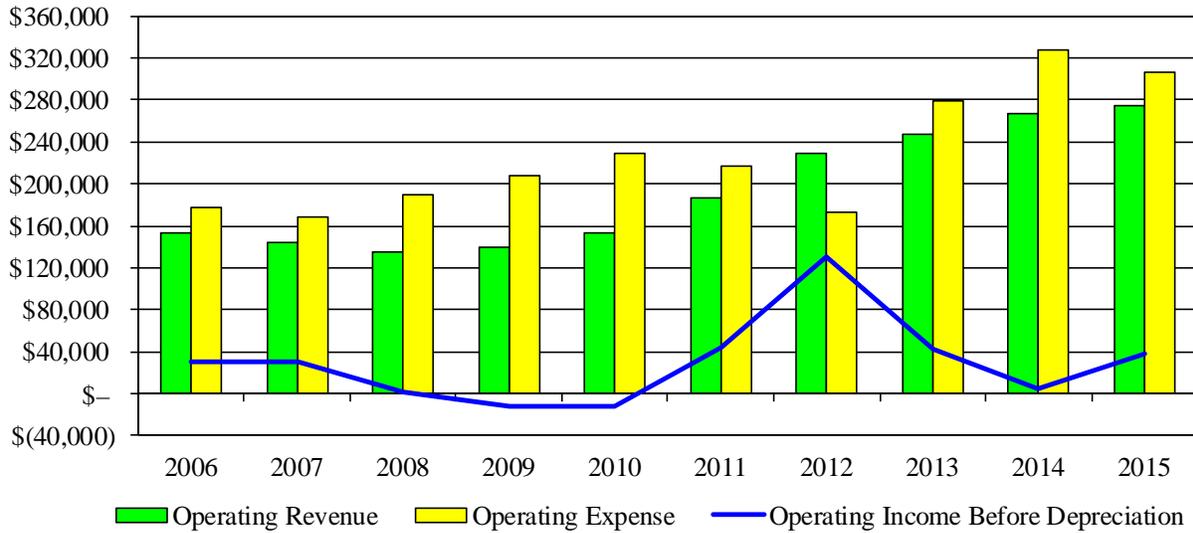
Enterprise Funds Change in Financial Position			
	Net Position as of December 31,		Increase (Decrease)
	<u>2015</u>	<u>2014</u>	
Net position of enterprise funds			
Total by classification			
Net investment in capital assets	\$ 2,315,961	\$ 2,130,300	\$ 185,661
Unrestricted	<u>1,097,052</u>	<u>1,335,118</u>	<u>(238,066)</u>
Total enterprise funds	<u>\$ 3,413,013</u>	<u>\$ 3,465,418</u>	<u>\$ (52,405)</u>
Total by fund			
Water	\$ 1,616,977	\$ 1,812,571	\$ (195,594)
Sewer	1,708,649	1,599,004	109,645
Street Light	60,903	39,251	21,652
Storm Sewer	<u>26,484</u>	<u>14,592</u>	<u>11,892</u>
Total enterprise funds	<u>\$ 3,413,013</u>	<u>\$ 3,465,418</u>	<u>\$ (52,405)</u>

The City recorded a change in accounting principle for reporting its participation in the Public Employees Retirement Association pension plan that reduced beginning unrestricted net position by \$168,863 in the enterprise funds.

WATER ENTERPRISE FUND

At December 31, 2015, the Water Enterprise Fund had a cash balance of \$402,964. Net position for the fund was \$1,616,977, a decrease of \$195,594 from fiscal 2014. Net position consisted of \$1,256,481 of net investment in capital assets and \$360,496 in unrestricted net position.

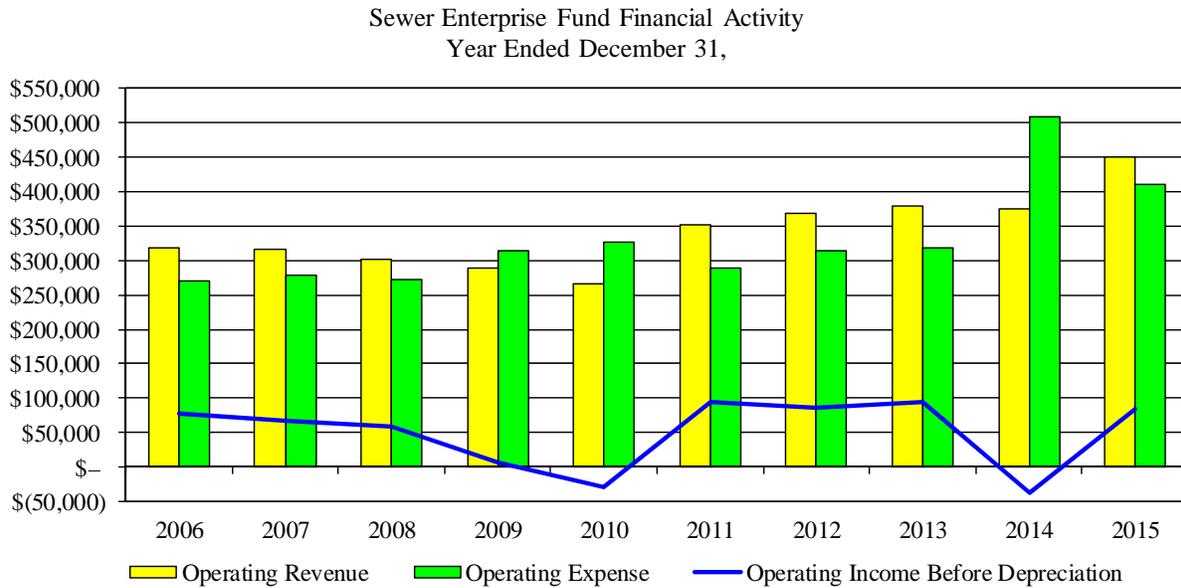
Water Enterprise Fund Financial Activity
Year Ended December 31,



Water Enterprise Fund operating revenues for 2015 were \$274,565, which is an increase of \$7,675 from the previous year. Water Enterprise Fund operating expenses were \$306,739, a decrease of \$15,280 from the prior year, mostly in supply costs.

SEWER ENTERPRISE FUND

At December 31, 2015, the Sewer Enterprise Fund had a cash balance of \$637,894 and a net position of \$1,708,649, an increase of \$109,645 from fiscal 2014. Net position consisted of \$1,064,652 of net investment in capital assets and \$643,997 of unrestricted net position.



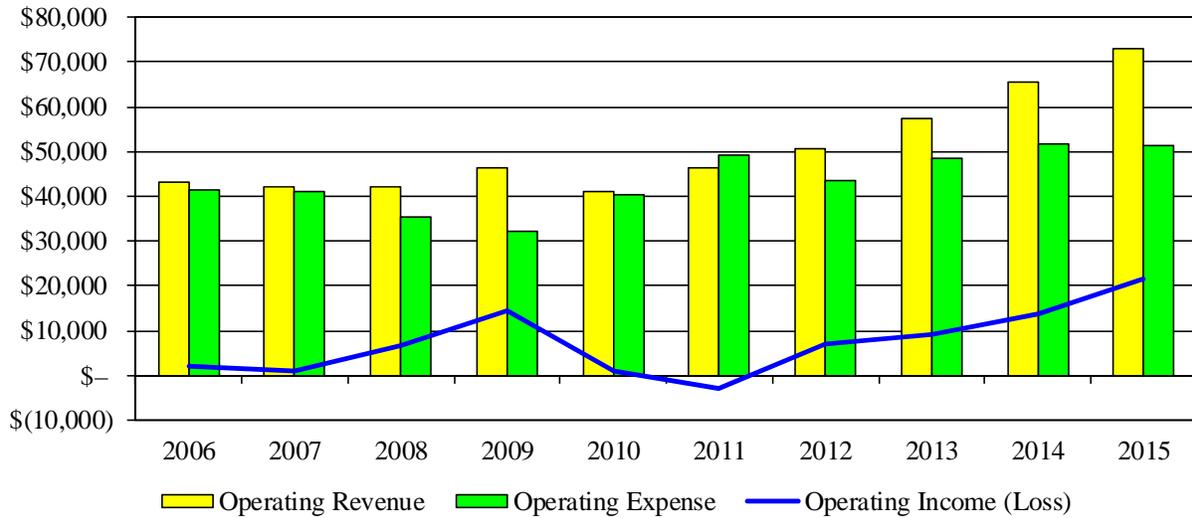
Sewer Enterprise Fund operating revenues for 2015 were \$449,825, which were \$74,395 higher than the previous year. Operating income before depreciation increased in fiscal 2015 mainly due to decreases in Metropolitan Council Environment Services (MCES) sewer charges totaling \$57,553.

It is also important that sewer rates be designed to provide for future repairs and replacement of the infrastructure assets. As seen in the above graph, the fund’s revenues did not fund future repairs in fiscal 2010 and 2014.

STREET LIGHT ENTERPRISE FUND

At December 31, 2015, the Street Light Enterprise Fund had a cash balance of \$48,146 and net position of \$60,903.

Street Light Enterprise Fund Financial Activity
Year Ended December 31,

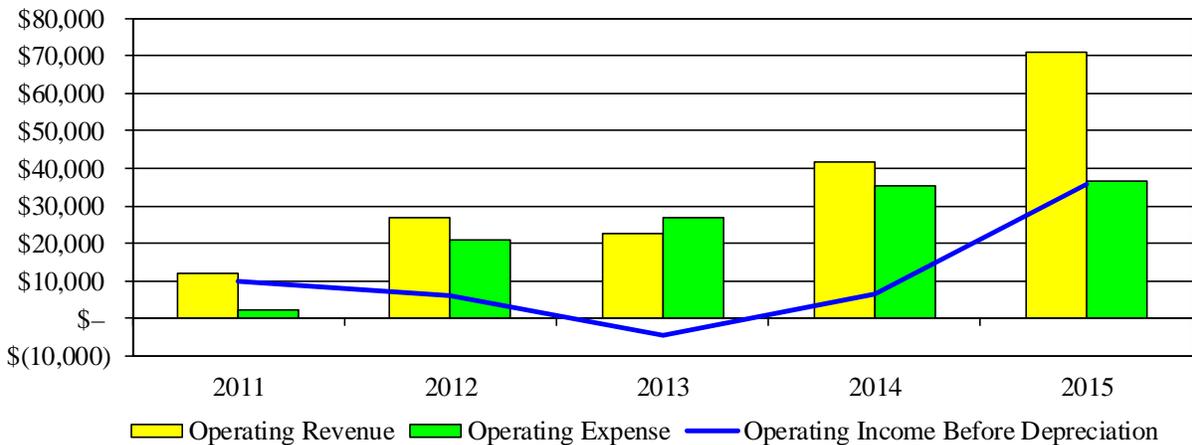


The Street Light Enterprise Fund net position increased \$21,615 in fiscal 2015.

STORM SEWER ENTERPRISE FUND

At December 31, 2015, the Storm Sewer Enterprise Fund had a cash balance of \$33,820 and a net position of \$26,484. The Storm Sewer Enterprise Fund finished the year with an increase in net position of \$11,892.

Storm Sewer Enterprise Fund Financial Activity
Year Ended December 31,



GOVERNMENT-WIDE FINANCIAL STATEMENTS

In addition to fund-based information, the current reporting model for governmental entities also requires the inclusion of two government-wide financial statements designed to present a clear picture of the City as a single, unified entity. These government-wide financial statements provide information on the total cost of delivering services, including capital assets and long-term liabilities.

STATEMENT OF NET POSITION

The Statement of Net Position essentially tells you what your city owns and owes at a given point in time, the last day of the fiscal year. Theoretically, net position represents the resources the City has leftover to use for providing services after its debts are settled. However, those resources are not always in spendable form, or there may be restrictions on how some of those resources can be used. Therefore, net position is divided into three components: net investment in capital assets, restricted, and unrestricted.

The following table presents the components of the City's net position as of December 31, 2015 and 2014 for governmental activities and business-type activities:

	As of December 31,		Increase (Decrease)
	2015	2014	
Net position			
Governmental activities			
Net investment in capital assets	\$ 7,709,131	\$ 8,149,524	\$ (440,393)
Restricted	1,607,682	1,844,089	(236,407)
Unrestricted	<u>2,835,615</u>	<u>3,097,413</u>	<u>(261,798)</u>
Total governmental activities	12,152,428	13,091,026	(938,598)
Business-type activities			
Net investment in capital assets	2,315,961	2,130,300	185,661
Unrestricted	<u>1,097,052</u>	<u>1,335,118</u>	<u>(238,066)</u>
Total business-type activities	<u>3,413,013</u>	<u>3,465,418</u>	<u>(52,405)</u>
Total net position	<u>\$ 15,565,441</u>	<u>\$ 16,556,444</u>	<u>\$ (991,003)</u>

The City ended 2015 with combined total net position of \$15,565,441, a decrease of \$991,003 from the prior year.

The City recorded a change in accounting principle for reporting its participation in the Public Employees Retirement Association and Newport Fire Relief Association pension plans that reduced beginning unrestricted net position by \$1.1 million.

STATEMENT OF ACTIVITIES

The Statement of Activities tracks the City's yearly revenues and expenses, as well as any other transactions that increase or reduce total net positions. These amounts represent the full cost of providing services. The Statement of Activities provides a more comprehensive measure than just the amount of cash that changed hands, as reflected in the fund-based financial statements. This statement includes the cost of supplies used, depreciation of long-lived capital assets, and other accrual-based expenses.

The following table presents the change in the net position of the City for the years ended December 31, 2015 (excluding the change in accounting principle discussed previously) and 2014:

	2015		2014	
	Expenses	Program Revenues	Net Change	Net Change
Net (expense) revenue				
Governmental activities				
General government	\$ 686,687	\$ 169,831	\$ (516,856)	\$ (546,237)
Public safety	1,336,014	243,862	(1,092,152)	(875,295)
Public works	1,351,673	52,556	(1,299,117)	(434,133)
Parks and recreation	282,666	8,617	(274,049)	(334,653)
Economic development	56,138	–	(56,138)	(395,371)
Interest on long-term debt	128,736	–	(128,736)	(127,856)
Business-type activities				
Water	325,377	281,039	(44,338)	(71,609)
Sewer	437,667	499,689	62,022	(150,205)
Other	95,073	143,897	48,824	14,246
Total net (expense) revenue	<u>\$ 4,700,031</u>	<u>\$ 1,399,491</u>	(3,300,540)	(2,921,113)
General revenues				
Property taxes			2,402,020	2,345,945
General grants and contributions			844,119	671,752
Other general revenues			132,160	129,785
Investment earnings			27,909	33,745
Total general revenues			<u>3,406,208</u>	<u>3,181,227</u>
Change in net position			<u>\$ 105,668</u>	<u>\$ 260,114</u>

One of the goals of this statement is to provide a side-by-side comparison to illustrate the difference in the way the City's governmental and business-type operations are financed. The table clearly illustrates the dependence of the City's governmental operations on general revenues, such as property taxes and unrestricted grants. It also shows that, for the most part, the City's business-type activities are not generating sufficient program revenues (service charges and program-specific grants) to cover expenses. This is critical given the current downward pressures on the general revenue sources.

LEGISLATIVE UPDATES

Despite the 2015 legislative session beginning with a projected budget excess of \$1.87 billion for the 2016–2017 biennium, the most favorable budget forecast in over a decade, little was accomplished during the regular legislative session due to partisan disagreement. The regular session adjourned without the Legislature bringing forth a number of significant funding bills, including the Omnibus Legacy Bill (funding for outdoor heritage, clean water, parks and trails, arts, and cultural heritage) and a bonding bill for capital projects. The Governor subsequently vetoed a number of other funding bills, including the Omnibus E–12 Education Bill due to the Legislature not addressing his demand for a universal preschool provision. Eventually, a one-day special session produced funding bills for E–12 education, jobs and energy, Legacy programs, environment and agriculture, and capital investment.

The following is a summary of recent legislation affecting Minnesota cities in 2015 and into the future:

Local Government Aid (LGA) – The Legislature completely overhauled the LGA formula for fiscal year 2014 and thereafter, creating a three-tiered formula that includes separate “need factor” calculations for cities with populations under 2,500, between 2,500 and 10,000, or over 10,000. The new formula simplified the LGA calculation, and reduced the volatility of the LGA distribution by limiting the amount it may decline in a given year. Beginning in 2015, any reduction to a city’s calculated LGA distribution will be limited to the lesser of \$10 per capita, or 5 percent of their previous year net tax levy. For cities that gain under the new formula, the increases will be distributed proportionate to their unmet need, as determined by the new “need factor” calculations. The state-wide LGA appropriation was \$516.9 million for fiscal 2015, and is \$519.4 million for fiscal 2016 and thereafter.

Sales Tax Exemption – Cities (both home-rule and statutory) were exempted from paying sales tax on qualifying purchases, effective for purchases made on or after January 1, 2014. Purchases of goods or services by an exempt local government for a publicly-provided liquor store, gas or electric utility, golf course, marina, campground, café, laundromat, solid waste hauling or recycling operation, or landfill will remain taxable.

The 2014 Legislature extended the definition of tax exempt local government to include all special district; city, county, or township instrumentalities; economic development authorities; housing and redevelopment authorities; and all joint power boards or organizations. However, the effective date of this expanded exemption list was delayed until January 1, 2017 by the 2015 Legislature.

Omnibus Bonding Bill – The Legislature approved a scaled-down Omnibus Bonding Bill during the special session, authorizing approximately \$370 million in capital improvements. Included in the funding approved was \$172.5 million for transportation infrastructure, \$23.5 million for flood hazard mitigation, \$10 million for Public Financing Agency (PFA) grants to municipalities for wastewater infrastructure, and \$1.5 million to the Metropolitan Council for inflow and infiltration improvement grants to metro area cities.

Legacy Funding – The Legacy bill included \$9.25 million annually to finance grants for city water infrastructure improvements through the PFA. It also included \$17.25 million annually to fund “SCORE” block grants to counties for recycling and waste reduction (a portion of which is passed through to cities) and \$1 million of annual funding for a new grant program to establish or improve recycling programs in non-metro area cities.

Broadband Initiative – The Omnibus Jobs and Energy Bill passed in the special session included \$10.6 million to finance the Border-to-Border Broadband Grant Program, a one-time appropriation available until June 30, 2017.

Municipal State-Aid Streets – Included in the Omnibus Transportation Bill were annual funding allocations for municipal state-aid streets of \$107.7 million for fiscal 2016 and \$178.1 million for fiscal 2017, which represents an increase of approximately \$41 million over the previous biennium.

Small Cities Assistance Account – A one-time appropriation of \$12.5 million was provided to create a new Small Cities Assistance Account to assist with construction and maintenance of roads located within eligible cities, defined as a statutory or home-rule charter city that does not receive municipal state aid street financing (generally those with a population under 5,000). The aid will be distributed to eligible cities biannually in each year funds are available based on the following formula: 5 percent equally to all eligible cities; 35 percent allocated proportionately on each city’s share of lane miles to the total for all eligible cities; 35 percent allocated proportionately on each city’s population to the total for all eligible cities; and 25 percent allocated proportionately on each city’s state-aid adjustment factor to the total for all eligible cities.

Workforce Housing Grant Program – The Omnibus Jobs and Energy Bill included annual funding of \$2 million for fiscal 2016 and 2017 for a new Workforce Housing Grant Program. Eligible cities can use the grants to develop “market rate residential rental property” to serve employees of businesses located in the eligible project areas. The maximum grant award may not exceed 25 percent of the rental housing development project cost; and awards must be matched by a local unit of government, business, or nonprofit organization with \$1 for each \$2 of grant funding.

Automated License Plate Reader (ALPR) Policy – Law enforcement agencies that utilize ALPRs are required to establish policies governing their use that are consistent with statutory guidelines. The Legislature placed limitations on the type of data that can be collected using ALPRs, and clarified the circumstances under which that data is considered public or private. A limitation of 60 days was established for the retention of data collected by ALPR not related to an active criminal investigation. Standards were established for the sharing of ALPR data between law enforcement agencies.

Elections – The Elections Omnibus Bill made numerous changes to elections administration laws, including requirements for filing fees for statutory cities, ballot formatting and marking, absentee ballots, and election recounts.

Energy Conservation Measures – The Uniform Municipal Contracting Law was amended to add water metering devices that increase efficiency to the definition of energy conservation measures, enabling municipalities to enter into guaranteed energy savings contracts for the use of water metering devices.

Responsible Contractor Requirement – The “responsible contractor” law enacted by the 2014 Legislature became effective on January 1, 2015. Contractors who bid on public contracts in excess of \$50,000 are now required to certify that they are a “responsible bidder” in order to be awarded a contract as the lowest responsible bidder or best value alternative. The 2015 Legislature made several clarifications and modifications to the law, including: exempting design professionals and materials suppliers from the requirements; making motor carriers subject to the requirements and establishing a separate verification standard for them; excluding tax increment financing revenue from the value of a construction contract under the law; and allowing general contractors to submit bids without obtaining verification from all subcontractors that bid on the project (the successful prime contractor must submit a supplemental verification under oath prior to the execution of the contract).

Appraisal Requirements for Eminent Domain – Effective July 1, 2015, the appraisal requirements for the acquisition of property by eminent domain are changed to require the acquiring entity to obtain at least one appraisal for the property proposed to be acquired only if the acquisition value is greater than \$25,000. For acquisitions less than \$25,000, the acquiring entity may obtain a minimum damage acquisition report in lieu of an appraisal.

Firefighter Employment Provisions and Volunteer Benefits – The Omnibus Public Safety Finance and Policy Bill made a number of changes related to firefighters, including: allowing relief association dues as a voluntarily payroll deduction, allowing volunteer firefighters to be paid less frequently than every 31 days, requiring the licensure of all full-time firefighters by the State Board of Firefighter Training and Education, and expanding “continued employer health insurance benefits” to include dependents of volunteer firefighters killed in the line of duty.

Police and Firefighter Retirement Supplemental State Aid – The volunteer firefighter portion of the Police and Firefighter Retirement Supplemental State Aid Program was made permanent. The minimum obligation of municipalities to an associated relief association special fund is now reduced by the amount of both fire state aid and police and firefighter retirement supplemental state aid. Police and firefighter retirement supplemental state aid is also added to the calculation of the exception to municipal ratification requirement for lump-sum plans.

Pensions – A number of changes to the pension plans administered by the Public Employees Retirement Association (PERA) were adopted, effective June 30, 2015, including:

- The future interest rate actuarial assumption for the PERA General Plan and PERA Police and Fire Plan are changed from 8.5 percent to 8.0 percent for actuarial valuations prepared after June 30, 2015.
- The refund repayment interest rate and prior service credit purchase payment determination rate for the PERA General Plan and PERA Police and Fire Plan are also changed from 8.5 percent to 8.0 percent.
- The CPI-based post-retirement adjustment mechanism for the PERA Police and Fire Plan is replaced with a flat 2.5 percent increase when the plan reaches a 90 percent funding level.
- The contribution stabilizer mechanisms applicable to the PERA General Plan are revised, broadening the factors the plan’s Board of Trustees may consider before recommending an increase in the plan contribution rates.
- Definitions of salary, termination of service, allowable service, retirement, and volunteer firefighter were revised for all applicable PERA plans.
- Changes in eligibility, service pension levels, ancillary benefits, and service time calculations were made to the PERA Statewide Volunteer Firefighter Plan, lump sum retirement division. A change was also made to create a “monthly benefit retirement division” within this plan to facilitate the transfer of individual volunteer firefighter association monthly benefit plans to the statewide plan.
- A number of administrative language changes were made to complete the merger of the Minneapolis Employees Retirement Fund into the PERA General Plan, which was effective January 1, 2015.

ACCOUNTING AND AUDITING UPDATES

GASB STATEMENT NO. 72, *FAIR VALUE MEASURE AND APPLICATION*

The primary objective of this statement is to address accounting and financial reporting issues related to fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. It also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

This statement generally requires investments to be measured at fair value. An investment is defined as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. This statement is effective for financial statements for fiscal years beginning after June 15, 2015. Earlier application is encouraged.

GASB STATEMENT NO. 73, *ACCOUNTING AND FINANCIAL REPORTING FOR PENSIONS AND RELATED ASSETS THAT ARE NOT WITHIN THE SCOPE OF GASB STATEMENT 68, AND AMENDMENTS TO CERTAIN PROVISIONS OF GASB STATEMENTS 67 AND 68*

The objective of this statement is to improve the usefulness of information about pensions included in financial statements of state and local governments for making decisions and assessing accountability. This statement also clarifies the application of certain provisions of GASB Statement Nos. 67 and 68 regarding 10-year schedules of required supplementary information (RSI) and other recognition issues pertaining to employers and nonemployer contributing entities. These changes will improve financial reporting by establishing a single framework for the presentation of information about pensions, enhancing comparability for similar information reported by employers and nonemployer contributing entities.

The requirements of this statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions not within the scope of GASB Statement No. 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this statement for pension plans that are within the scope of GASB Statement No. 67 or for pensions that are within the scope of GASB Statement No. 68 are effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged.

GASB STATEMENT NO. 74, *FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS*

The objective of this statement is to improve the usefulness of information about post-employment benefits other than pensions (other post-employment benefits [OPEB]). This statement replaces GASB Statement Nos. 43 and 57. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in GASB Statement Nos. 25, 43, and 50. GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

This statement will improve financial reporting primarily through enhanced note disclosures and schedules of RSI that will be presented by OPEB plans administered through trusts meeting the specified criteria. The new information will enhance the decision-usefulness of the financial reports of those OPEB plans, their value for assessing accountability, and their transparency by providing information about measures of net OPEB liabilities and explanations of how and why those liabilities changed from year-to-year. The net OPEB liability information, including ratios, will offer an up-to-date indication of the extent to which the total OPEB liability is covered by the fiduciary net position of the OPEB plan. The comparability of the reported information for similar types of OPEB plans will be improved by the changes related to the attribution method used to determine the total OPEB liability. The contribution schedule will provide measures to evaluate decisions related to the assessment of contribution rates in comparison with actuarially determined rates, if such rates are determined. In addition, new information about rates of return on OPEB plan investments will inform financial report users about the effects of market conditions on the OPEB plan's assets over time and provide information for users to assess the relative success of the OPEB plan's investment strategy and the relative contribution that investment earnings provide to the OPEB plan's ability to pay benefits to plan members when they come due.

This statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

GASB STATEMENT NO. 75, ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

The primary objective of this statement is to improve accounting and financial reporting by state and local governments for post-employment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This statement replaces the requirements of GASB Statement Nos. 45 and 57. GASB Statement No. 74 establishes new accounting and financial reporting requirements for OPEB plans.

This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and RSI requirements about defined benefit OPEB also are addressed. This statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

Similar to changes implemented for pensions, this statement requires the liability of employers and nonemployer contributing entities to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position.

GASB STATEMENT NO. 77, TAX ABATEMENT DISCLOSURES

This statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements, and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. Tax abatements are widely used by state and local governments, particularly to encourage economic development. For financial reporting purposes, this statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

The requirements of this statement improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations, and (2) the impact those abatements have on a government's financial position and economic condition. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged.

GASB STATEMENT NO. 78, *PENSIONS PROVIDED THROUGH CERTAIN MULTIPLE-EMPLOYER DEFINED BENEFIT PENSION PLANS*

The objective of this statement is to address a practice issue regarding the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. Prior to the issuance of this statement, the requirements of GASB Statement No. 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of GASB Statement No. 68.

This statement amends the scope and applicability of GASB Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing, multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and RSI for pensions that have the characteristics described above. The requirements of this statement are effective for reporting periods beginning after December 15, 2015. Early application is encouraged.

GASB STATEMENT NO. 79, *CERTAIN EXTERNAL INVESTMENT POOLS AND POOL PARTICIPANTS*

This statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. If an external investment pool meets the criteria in this statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this statement, the pool's participants should measure their investments in that pool at fair value.

This statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. The requirements of this statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

GASB STATEMENT NO. 80, *BLENDING REQUIREMENTS FOR CERTAIN COMPONENT UNITS—AN AMENDMENT OF GASB STATEMENT NO. 14*

The objective of this statement is to clarify the financial statement presentation requirements for certain component units. This statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units—an amendment of GASB Statement No. 14*. The requirements of this statement are effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged.

CHANGES TO REQUIREMENTS FOR FEDERAL GRANTS

In December 2013, the U.S. Office of Management and Budget (OMB) Circular released final guidance on administrative requirements, cost principles, and audit requirements for federal awards. The final guidance, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (“Uniform Guidance”), supersedes and streamlines eight existing OMB Circulars into one document that includes OMB Circulars A-21, A-87, A-89, A-102, A-110, A-122, A-133, and the guidance in OMB Circular A-50 on Single Audit Act follow-up.

The Uniform Guidance, which is located in Title 2 of the Code of Federal Regulations (CFR), consolidates previous guidance into a streamlined format that aims to improve both its clarity and accessibility, lessen administrative burdens for federal award recipients, and reduce the risk of waste, fraud, and abuse.

The Following is a Summary of Significant Changes for Grant Recipients:

- Changes time and effort documentation requirements by providing possibilities for alternative methods of accounting for salaries and wages based on achievement of performance outcomes.
- Non-federal entities must have a financial management system that includes, but is not limited to: a comparison of expenditures with budget amounts for each federal award, written procedures to implement the requirements of cash management, and written procedures for determining the allowability of costs in accordance with Subpart E – Cost Principles.
- Governments must comply with the new general procurement standards which include, but are not limited to: written standards covering conflicts of interest of employees engaged in the selection, award, and administration of contracts and documented procurement procedures that include an analysis of lease versus purchase alternatives when appropriate.
- Governments will now be required to follow the five procurement methods which include, at times, more restrictive compliance requirements than Minnesota Statutes. For example: small purchases (over \$3,000 prior to October 1, 2015 and over \$3,500 after October 1, 2015) will require quotes.
- There are new requirements for governments with subrecipients (or those making subawards), which include, but are not limited to: a required written risk assessment of each subrecipient, which may require you to provide training and on-site reviews of their program operations.
- For governments with subrecipients or those that operate as a fiscal host of a federal grant award and thus provide subawards, payments must be made in advance to the subrecipients, unless certain requirements are not met, then the reimbursement method can be used.

Among Other Matters Specifically Applicable to Auditors, Changes to the Uniform Guidance Include:

- Raising both the threshold that triggers a Single Audit and the threshold for Type A/B program determination to \$750,000.
- Changing the high-risk program criteria for Type A programs.
- Reducing the number of high-risk Type B programs that must be tested as major programs.
- Revising the Type B small program floor.
- Reducing the percentage of coverage requirement to 40 percent for normal auditees and 20 percent for low-risk auditees.
- Revising the criteria for low-risk auditee status.
- Increasing the threshold for reporting findings to \$25,000 in questioned costs and requiring more detailed information to be reported.

Effective Dates:

Year beginning January 1, 2015 –

- All administrative requirements and cost principles will apply to new awards made after December 26, 2014.
- Governmental entities are required to comply with the Uniform Guidance once the new regulations are in effect at the Federal government level (December 26, 2014).
- Any funding drawdowns made after January 1, 2015 must comply with the Uniform Guidance.
- Must document whether the entity is in compliance with the old or new procurement standards listed in Subpart D, Sections 200.317–200.326. The federal government has provided a two-year grace period for implementing the new procurement standards.

Year beginning January 1, 2016 –

- All administrative requirements and cost principles will apply to new awards made after December 26, 2014.
- Subpart F – Audit Requirements are applicable.

Year beginning January 1, 2017 –

- Must have implemented the new procurement standards of the Uniform Guidance, if the government initially elected the two-year grace beginning January 1, 2015.
- At this point, all of the new Uniform Guidance at Title 2 CFR 200 is applicable.

Recommended Action Items:

We recommend that award recipients familiarize themselves with the new requirements contained in the Uniform Guidance and develop a plan to become compliant with the new regulations.

Consider the following –

- Attend training on the new uniform administrative requirements.
- Identify needed policy and procedure changes, especially in the areas of:
 - Financial management
 - Payment
 - Procurement
 - Compensation
 - Travel costs
- Identify internal controls that might need to be established or modified.
- Determine who within your organization is responsible for each action item.
- Determine the timing of each action item.
- Determine when you will implement the new procurement standards and document in writing.

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